Study of Financial Results
And Reporting Trends

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U.S. Gaming INDUSTRY

LH
Laventhol & Horwath
Certified Public Accountants

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U.S. GAMING INDUSTRY

Seventh Annual Study of Financial Results and Reporting Trends U.S. Gaming Industry

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INTRODUCTION

In a year highlighted by an unusual number of financial realignments by major operators in the casino sector—including mergers, acquisitions, recapitalizations, stock buybacks—and a continuing upward curve of the government-operated lottery sector, the U.S. gaming industry reached a new level of growth and maturity in 1986.

In offshore casino markets there were also signs of continuing expansion. In the Caribbean, more operations have become significant competitors for the business of gaming enthusiasts from the U.S. mainland. The growth of Puerto Rico as an airline hub, with increased passenger flights, puts all islands within easier reach of U.S. population centers. In Australia, new casinos in popular resort areas have become very popular attractions, drawing customers from Pacific Rim nations and the Far East.

Because the gaming industry became more segmented during 1986, generalizations are inappropriate. However, combined revenues for both the lottery and casino segments reached new highs in 1986.

As for operating results, the industry's performance was mixed.

Lotteries

As anticipated, the lottery sector experienced the greatest overall gain, primarily the result of new operations that came on line during the past year.

For the various fiscal years ended in 1986 (primarily June) U.S. lotteries recorded a total of almost $12.5 billion in revenues, an increase of 32 percent compared with 1985. As expected, the California State Lottery led the way in gross income.

After spending 10.5 percent of revenues on operating expenses and commissions, and paying out 49.6 percent of the total in prizes to winners (approximating $6.2 billion), states operating lotteries credited a total of almost $5 billion to their state treasuries, a sum equivalent to an average profit margin of 39.9 percent.

Like any entrepreneurial venture—public or private—some lotteries produced larger profit margins, some smaller. Officials of three neighboring states that had been disappointed in the per capita results of their individual lotteries (Maine, New Hampshire and Vermont) initiated, in September 1985, a "Tri-State Megabucks" lotto. After experimenting with several types of games, a new instant game was put in play, resulting in sharply increased revenues.

Because state lotteries are increasingly successful, with some states reporting unexpected surpluses in their treasuries, a new note of concern was voiced by states rights advocates in 1986. A concept for a national lottery surfaced on Capitol Hill as a means to ease federal budget deficits. As federal shortfalls continue, congressional representatives enamored by the idea will undoubtedly further debate this subject. (For a detailed discussion about lotteries, see page 34.)

Casino/Hotels

In the casino/hotel sector, some operations experienced significant growth and produced noteworthy operating profits in 1986. Others reported substantial turnarounds. A few properties, which have had financial difficulties for some years, continued to post disappointing losses.

However, it has become increasingly evident in recent years, that Nevada and Atlantic City are unique sectors of the gaming industry. Gaming operators demonstrate their ability to meet the challenges and problems associated with these two markets.

Nevada: According to official figures, Nevada's casino revenues, for the state's fiscal year ended June 30, 1986, increased a minimal 5.2 percent (See Table K, page 26). However, that statistic does not take into account what actually happened during the full calendar year. Additional increases during the final six months of 1986 and on into 1987, primarily in Clark County, brightens the picture.

Table C (page 10) shows more about recent trends in Nevada, and further emphasizes the differences in operating postures between Nevada and Atlantic City. Sizeable increases in room revenues of major operators (vis-a-vis casino revenues) reflecting substantial additions to the total supply of rooms, provide further evidence that Nevada is increasingly becoming a total destination resort. Nevada's improving operating results will be reflected more fully in the fiscal year ending June 30, 1987. (For a detailed Nevada summary, see page 21).

Atlantic City: New Jersey casinos reported increased revenues of about 7 percent for the calendar year. But again, neither this average nor the total top line tells the whole story. Cash flow is the operative factor here, and in that regard, the resort registered an increase of 14 percent.

With significant increases in capacity expected in 1987 and 1988, Atlantic City will once again experience "bottom-line" problems. (For a detailed report on Atlantic City trends, see page 28.)

Comments on Casino Trends

While there are major differences between Atlantic City and Nevada casino markets—and even between the subdivisions of the Nevada market—certain basics remain:

First, like the U.S. hotel industry in general, the casino industry has embarked on a radical strategic redirection which will produce fundamental changes in the way the industry operates.

To be successful in today's leisure-time market, casino operators must adapt to the locality in which their operations are located. In particular, they must adopt strategies to attract a broader market which is visible in the near future—customers who are gambling for less money, visitors whose objective is to budget their spendable dollars to last the length of their stay. It may take two, three or more players of this calibre to replace one big spender. And to attract a new clientele, to build a

new market, will require far more than simply spending dollars on big advertising campaigns. Success will require sound strategic market planning.

After casino proposals were defeated in Florida, Louisiana and West Virginia in the November 1986 elections, it is evident that no new jurisdictions will be opened in the near future. In fact, the rising growth of lotteries may have taken the edge off the casino expansion movement for some time to come. Eventually some state or locality may enact legislation to legalize casino gaming. When this happens the present logjam may be broken.

However, as long as the industry is restricted to current jurisdictions—Nevada and Atlantic City—it will, overall, be subject to limited growth prospects.

Outlook for 1987

Although short-term adjustments and challenges will continue during the next few years, the long-range outlook for the entire gaming industry remains sound. Legal games of chance have achieved a secure role in America's powerful leisure-time economy.

Following the trend of recent years, the greatest revenue growth in 1987 will show up in the lottery segment, largely because five new state lotteries were approved at the November 1986 polls. However, the full effect of these lotteries will not be measured until the end of 1987 or 1988.

For 1987, it is possible that casino resort areas, both East and West, may benefit when U.S. tourists returning home from Europe this summer spread the word of soaring prices for all goods and services because of the weak U.S. dollar. Additionally, a percentage of offshore visitors—coming to the U.S. in greater numbers than ever because of a diametrically favorable exchange rate—may try their luck in American casinos.

The revenues of the casino and lottery industries are expected to set a new record in 1987, passing $20 billion in aggregate.

Sources of Data

The statistical information for the casino section of this study has been assembled from information in the individual companies' annual reports to shareholders, 10-Ks submitted to the Securities and Exchange Commission (SEC), reports filed with the New Jersey Casino Control Commission and information contained in the Nevada Gaming Abstract.

Because there are wide differences in the ways companies record costs in operating statements, and because some of the companies derive all their revenues from gaming operations, while others derive only a portion of revenue from this source, direct comparisons of corporate operating results may not be meaningful.

Furthermore, in 1986, mergers and acquisitions changed the makeup of several companies included in this report.

Additionally, many of the companies have different fiscal year-ends. Thus, the information is not always for the same period. Therefore, the operating results and percentages in this study should not be considered standards for the industry, nor are they necessarily desirable goals.

Information for state lotteries was obtained from the public annual reports issued by the state agencies and from additional financial information furnished by those agencies. Again, direct comparison between individual lotteries may not be meaningful because of differences in state population, mix of types of lotteries, differences in fiscal year-ends and other factors.

Comments and information from readers on the information detailed in this report would be appreciated.

Saul F. Leonard
National Partner
Leisure Time and Gaming Industries

CORPORATIONS INCLUDED IN THIS STUDY

Table A Gaming Corporations	Fiscal Year-End	Casino Sq. Ft. (Approx.)	Guest Rooms	Total Guest Rooms
Bally Manufacturing Corporation[1]	12/31/86			
Bally's, Las Vegas[2]		62,500	2,800	
Bally's, Reno[2]		100,000	2,000	
Bally's Park Place Casino Hotel, Atlantic City		60,000	510	5,310
Caesars World, Inc.	7/31/86			
Caesars Atlantic City, Atlantic City (86.6% interest)		60,000	641	
Caesars Palace, Las Vegas		75,000	1,638	
Caesars Tahoe, Lake Tahoe		40,000	446	2,725
Circus Circus Enterprises, Inc.	1/31/87			
Circus Circus, Las Vegas		110,000	2,793	
Circus Circus, Reno		60,500	1,625	
Edgewater Hotel and Casino, Laughlin, Nevada		39,500	609	
Silver City Casino, Las Vegas		18,000		
Slots-A-Fun Casino, Las Vegas		16,500		5,027
Dunes Hotels and Casinos, Inc.	12/31/86			
Dunes Hotel and Country Club, Las Vegas		60,000	1,200	1,200
Elsinore Corporation	12/31/86			
Atlantis Casino Hotel, Atlantic City (91.5% interest)		50,500	500	
Four Queens Hotel and Casino, Las Vegas		29,000	693	
Hyatt Lake Tahoe Hotel and Casino, Lake Tahoe		12,500	459	1,652
Golden Nugget, Inc.	12/31/86			
Golden Nugget, Atlantic City[3]		42,500	508	
Golden Nugget, Las Vegas		36,500	1,915	2,423
Hilton Hotels Corporation	12/31/86			
Flamingo Hilton, Las Vegas		34,000	2,927	
Las Vegas Hilton, Las Vegas		67,000	3,174	
Reno Hilton, Reno		58,000	603	6,704
Gold Coast Conrad International Hotel and Jupiters Casino, Queensland, Australia (10% interest, management contract)		60,000	622	622

[1]Bally Manufacturing Corporation merged in Bally's Park Place, Inc., June 1986.
[2]Formerly MGM Grand Hotels, acquired April 25, 1986.
[3]Sold to Bally Manufacturing Corporation March 1, 1987.

	Fiscal Year-End	Casino Sq. Ft. (Approx.)	Guest Rooms	Total Guest Rooms
Holiday Corporation	1/2/87			
Harrah's, Lake Tahoe			540	
Harrah's, Reno		134,000[4]	565	
Harrah's Marina Hotel/Casino, Atlantic City		60,000	1,125	
Holiday Casino, Las Vegas		48,000	1,008	3,238
Pratt Hotel Corporation[5]	12/31/86			
Sands Hotel and Casino, Atlantic City		50,000	500	500
Ramada Inns, Inc.	1/1/87			
Tropicana Hotel and Casino, Atlantic City		49,000	504	
Tropicana Resort and Casino, Las Vegas		45,000	1,911	2,415
Resorts International, Inc.	12/31/86			
Paradise Island Resort & Casino, Nassau, Bahamas		27,500	1,371	
Resorts International Casino Hotel, Atlantic City		60,000	700	2,071
Sahara Resorts, Inc.	9/30/86			
Hacienda Resort Hotel and Casino, Las Vegas		19,000	832	
Sahara Hotel and Casino, Las Vegas		43,000	930	1,762
Scott Corporation	12/31/86			
Union Plaza Hotel and Casino, Las Vegas		80,000	1,030	1,030
Showboat, Inc.	6/30/86			
Showboat, Las Vegas		40,000	495	495

[4]Total for Harrah's, Lake Tahoe and Reno.
[5]Operates Aruba Concorde Hotel and Casino on management contract.

COMMENTS FROM DIVERSIFIED CORPORATIONS WITH GAMING INTERESTS

Baily Manufacturing Corporation

"1986 was a turbulent year in Bally's history, but a year we feel was marked by milestones that will prove to be beneficial for the future of the company and its investors. . . ."

". . . The company's most notable moves during 1986 revolved around positioning the company as the dominant player in the gaming and casino hotel industry."

"In line with the company's . . . policy . . . we completed the successful acquisition and initial integration of the former MGM Grand Hotels in Las Vegas and Reno, Nevada."

"Convention business at Bally's Las Vegas during the year was excellent and food and beverage sales posted an all-time high. In January 1987 our Las Vegas casino/hotel had the highest monthly revenues and operating profits in the history of the operation. We feel this speaks well for the future when new management policies and procedures are fully implemented and our renovation and decorating are finished."

"At Bally's Reno the company has been undergoing a thorough renovation of all its rooms and is planning some major additions . . . Also, an aggressive new marketing plan is being undertaken to attract new clientele and to increase the convention business to make this property a prime destination stop."

"Bally's Park Place had another excellent year. Our confidence in Atlantic City is supported by the fact that gaming revenues in this market to date, in 1987, are up over 10 percent. . . ."

"With our faith in the future of the Atlantic City market, Bally earlier this year further increased its participation in this industry. The company purchased the highly regarded Golden Nugget Casino Hotel on the Boardwalk . . . for approximately $101 million in cash and $40 million in a new series of Bally's non-convertible preferred stock. The company is also assuming $299 million of mortgage indebtedness."

". . . Bally's other gaming businesses—lottery products and gaming machines—continue to hold bright promise for the future. . . ."

Robert E. Mullane
President, Chairman and Chief Executive Officer

Hilton Hotels Corporation

". . . Against a background of an uncertain, competitive market with overbuilding a factor in many areas throughout the U.S., we required all of the experience and effort that we were able to marshal in 1986."

"The year began with a difficult first quarter, but our operations gained strength, particularly in the second half of the year. Gaming turned in an excellent performance that augurs well for the future and hotel results exceeded our expectations over the last three quarters. . . ."

". . . The income contribution from gaming advanced by 15 percent while the income contribution from hotels showed a reduction of eight percent. Occupancy for hotels increased to 65 percent from 64 percent in the previous year. Occupancy for our gaming properties continued strong at 84 percent, as against 86 percent in 1985. Two factors, however, restrained gaming occupancy: (1) the inclusion of results from the recently opened Gold Coast Conrad International Hotel & Jupiters Casino in Queensland, Australia . . . and (2) operations at the Reno Hilton, which has been affected by the slow market conditions . . . in that city. . . ."

". . . The story of our Las Vegas gaming operations in 1986 is . . . an exciting one. . . ."

"The Flamingo Hilton has a track record of being the most profitable operation in our system, with occupancy averaging over 90 percent. Through the years we have expanded the property with four major additions, and the most recent of these, a $62 million, 800-room tower addition, became fully operational in the third quarter. . . . The Flamingo Hilton now has 2,927 guestrooms, giving us, along with the 3,174-room Las Vegas Hilton, the two largest hotels in the city. . . ."

". . . Significant enhancements are being made to this unique property [the Las Vegas Hilton] . . . One of these is particularly noteworthy—the $18 million, 33,000 square feet (nearly equal to the existing casino area) Las Vegas Race & Sports Superbook, which we consider . . . the largest and most attractive . . . anywhere. Operations began in December so that we benefit from the Super Bowl and other major year-end sporting events. The new Race & Sports Superbook promises an attractive return on our investment and will make a notable contribution to the property's overall performance and appeal. . . ."

". . . Gaming remains a major focus of our activities, and we shall continue to examine carefully other opportunities, whether international or in the U.S., in the event of legalization in new jurisdictions, where our gaming expertise may be profitably applied. . . ."

Barron Hilton
Chairman and President

Holiday Corporation

". . . The company's financial performance in 1986 reflected intense competition in both the lodging and gaming industries, as well as an unusual number of nonrecurring expenses in part associated with the plan of recapitalization. . . ."

"When our plan of recapitalization is put into effect, some of the financial yardsticks by which we have measured past performance will no longer be appropriate. However, most things about Holiday Corporation will not change. The company will continue to lead the hotel and gaming industries by constantly seek-

ing to improve its product and services. . . . We will also continue to set the standard for excellence in the gaming industry with the famous Harrah's touch. . . .

". . . During 1986, we expanded significantly our casino gaming capacity with the expansion of facilities in Atlantic City and Las Vegas, and with the acquisition of an existing casino in Lake Tahoe. . . .

". . . Harrah's opened 18,000 square feet of additional gaming capacity in 1986, adding 200 slot machines and 36 table games to its industry-leading totals. With the opening of 244 new suites in Atlantic City, Harrah's Marina hotel/casino enhanced its image as the finest property in the market. Customers obviously appreciated the hotel/casino's expanded facilities as revenues increased 12.0 percent over the prior year, adding to our market share.

"In Las Vegas, expanded casino and entertainment facilities opened just before year-end should give us sufficient capacity to continue the strong growth in profitability this casino has enjoyed since we acquired complete ownership in 1985.

"We also acquired a small casino adjacent to our property in Lake Tahoe. By combining certain facilities we plan to create a new market positioning not directly competitive with our world-renowned hotel/casino. . . ."

Michael D. Rose
Chairman of the Board and
Chief Executive Officer

Richard J. Goeglein
President and Chief Operating Officer

Ramada Inns, Inc.

"We believe strongly that the steps we are taking to invigorate our company will lead us to [our goal of a] markedly improved level of performance, but not immediately. The road to improved profit performance and leadership within the hospitality industry has been a long and rough one at times. We began this journey earlier in the decade, recognizing that our first priority was to scale up and strengthen the properties that carry our hotel and gaming banners. . . .

"The year in gaming was highlighted by the completion of an enormously successful $70 million expansion of our Las Vegas Tropicana and the start of construction of a second project, even larger in scope, at the Tropicana's sister facility in Atlantic City. . . .

"The addition of a new rooms tower and extensive exhibition facilities allows us to participate in growth taking place within the meetings and convention segment of the Las Vegas market. At the same time, the development of a five-acre tropical theme water park within the Tropicana complex added a new dimension to the entertainment options available at the property. . . .

". . . Despite the doubling of the Tropicana's rooms base to nearly 2,000, occupancy rates at the property quickly climbed past 90 percent and held in the upper 80's to low 90's throughout the year. . . .

"Nowhere was the strength of the Tropicana's competitive position more evident than at the bottom line. The property's 1986 operating income totaled $4.3 million, a sharp rebound from an operating loss of $1.3 million in 1985. Casino revenues increased over 20 percent. . . . Both were strong performances in a start up year. . . .

"In Atlantic City, an improving infrastructure and regulatory environment combined with continued growth prompted our decision to move forward during the fourth quarter of 1986 with [a $200 million] casino/hotel expansion . . . [aimed] at the emerging resort and convention segment of the market. Among other elements, the project will include a two-acre indoor . . . theme park . . . known as TropWorld. . . .

"The project will [also] include . . . a new 508-room guest room tower . . . [and] a 26,000 square-foot convention center. . . .

"A key element of the project will be the expansion of the existing casino from 51,000 to 88,000 square feet in two stages. . . .

". . . For [1986] . . . the Tropicana continued to rank among the most successful of Atlantic City's casino operations. Operating income climbed 10 percent to $53.3 million on a two percent increase in casino revenues. The Tropicana achieved these improved bottom-line results by striking a critical balance between revenue growth and marketing costs. . . .

"Looking beyond Las Vegas and Atlantic City, we announced plans in the first quarter of 1987 to move ahead with an exciting gaming development project in Reno and are continuing to evaluate the possibility of entering the Laughlin, Nevada, gaming market. . . ."

Richard Snell
Chairman

CONSOLIDATED CORPORATE OPERATING RESULTS

Table B
Consolidated Corporate Operating Results
($000 Omitted)

	Total Revenue*		Income From Operations**			
					Percent Total Revenue	
	1986	1985	**1986**	1985	**1986**	1985
Bally Manufacturing Corporation[1]	**$1,638,969**	$1,344,823	**$ 46,166**	$ 51,903	**2.8**	3.9
Caesars World, Inc.	**694,437**	660,798	**80,349**	69,641	**11.6**	10.5
Circus Circus Enterprises, Inc.	**373,957**	306,993	**65,640**	59,640	**17.6**	19.4
Dunes Hotels and Casinos, Inc.	**96,440**	94,586	**(10,749)**	(14,895)	***	***
Elsinore Corporation[2]	**95,982**	87,786	**7,693**	5,273	**8.0**	5.0
Golden Nugget, Inc.	**381,748**	385,023	**690**	29,640	**.2**	7.7
Hilton Hotels Corporation	**718,985**[3]	684,417[3]	**110,712**[4]	112,231[4]	**15.4**	16.4
Holiday Corporation	**1,647,788**[3]	1,804,472[3]	**156,621**	224,263	**9.5**	12.4
Pratt Hotel Corporation	**224,242**[3]	213,016[3]	**10,426**[4]	4,947[4]	**4.7**	2.3
Ramada Inns, Inc.	**686,966**[3]	582,369[3]	**27,307**[4]	23,723[4]	**4.1**	4.1
Resorts International, Inc.	**449,143**	463,877	**(43,944)**	(8,807)	***	***
Sahara Resorts, Inc.	**101,397**	95,975	**759**	(1,349)	**.7**	***
Scott Corporation	**60,764**	59,299	**(142)**	(1,973)	***	***
Showboat, Inc.	**50,152**	47,296	**10,489**	9,006	**20.9**	19.0

*Represents revenue after deductions for promotional allowances.
**Represents income before income taxes, minority interest, discontinued operations and extraordinary items.
***Not applicable; loss for the year.
[1]For comparison purposes, financial information for 1985 is reclassified to reflect the merger of Bally's Park Place, Inc., in June 1986.
[2]Excludes operations of Atlantis Hotel/Casino (other than net income). Atlantis operations are shown as discontinued operations.
[3]Excludes revenue of joint ventures and/or entities recorded on equity basis and/or entities operated under management contract.
[4]Before equity in earnings of joint ventures or other nonconsolidated operating entities.

Table B presents details about operating results of major operators in the U.S. casino gaming industry. A caveat, however: many factors, some nonrecurring, [illegible] into a company's operating results. Therefore, a comparison of year-to-year operating results, and the percentage relationships between companies or years, is not always meaningful without obtaining more detailed financial information.

For the companies included in this study, total revenue for fiscal 1986 increased 5.7 percent. However, for 1986, income from operations decreased 18 percent, net income decreased 38 percent and working capital provided from operations decreased 7 percent. 1986 net income was 3.1 percent of total revenue compared with 5.2 percent in 1985, while income from operations was 6.4 percent compared with 8.2 percent for 1985.

In 1986, casino/hotel revenue increased about 15 percent and approximated 61 percent of total revenue compared with 57 percent for 1985.

Net Income				Working Capital Provided From Operations		Casino/Hotel Revenue*			
		Percent Total Revenue						Percent Total Revenue	
1986	1985	1986	1985	1986	1985	1986	1985	1986	1985
$ 23,701	$ 25,637	1.5	1.9	$203,747	$178,808	$509,703	$260,318	31.1	19.4
41,017	31,812	5.9	4.8	88,705	72,626	646,611	619,808	93.1	93.8
28,199	37,375	7.5	12.2	71,636	65,323	373,957	306,993	100.0	100.0
(10,749)	(15,666)	***	***	(5,076)	(10,498)	96,440	93,152	100.0	98.5
(39,598)	(24,152)	***	***	10,566	8,768	91,603	84,730	95.4	96.5
(12,483)	20,842	***	5.4	14,252	84,970	333,917	330,676	87.5	85.9
97,839	100,163	13.6	14.6	160,020	155,112	483,653[3]	366,652	67.2	53.6
103,370	150,023	6.3	8.3	261,788	344,833	689,989[4]	664,328[5]	41.9	36.8
4,061	2,640	1.8	1.2	22,773	17,831	206,490[4]	194,280	92.1	91.2
10,275	17,207	1.5	3.0	52,477	49,858	383,372	341,814	55.8	58.7
(30,644)	6,093	***	1.3	26,255	18,095	417,834	416,403	93.0	89.8
411	(604)	.4	***	8,632	6,559	89,740	87,446	88.5	91.1
84	(1,017)	.1	***	6,395	3,325	60,764	59,299	100.0	100.0
5,769	4,941	11.5	10.4	12,056	8,389	50,152	47,296	100.0	100.0

GROSS OPERATING PROFIT OF GAMING OPERATIONS

Table C
Gross Operating Profit of Gaming Operations
($000 Omitted)

	(a) Casino Revenue		(b) (a) As a Percentage of (e)		(c) Hotel and Other Revenue*	
	1986	1985	1986	1985	1986	1985
Bally Manufacturing Corporation	N/A	$224,522	N/A	86.2	N/A	$ 35,796
Caesars World, Inc.	$508,908	498,857	78.7	80.5	$137,703	120,951
Circus Circus Enterprises, Inc.	230,967	195,383	61.8	63.6	142,990	111,610
Dunes Hotels and Casinos, Inc.	60,732	63,140	62.9	67.8	35,708	30,012
Elsinore Corporation	62,306	57,590	68.0	68.0	29,297	27,140
Golden Nugget, Inc.	320,536	319,433	96.0	96.6	13,381	11,243
Hilton Hotels Corporation	219,138	204,649	45.3	55.8	264,515	162,003
Holiday Corporation	538,676	517,966	78.1	78.0	151,313	146,362
Pratt Hotel Corporation	189,343	178,475	91.9	91.9	17,147	15,805
Ramada Inns, Inc.	289,053	272,470	75.4	79.7	94,319	69,344
Resorts International, Inc.	298,817	301,261	71.5	72.3	119,017	115,142
Sahara Resorts, Inc.	50,421	51,008	56.2	58.3	39,319	36,438
Scott Corporation	41,982	41,222	69.1	69.5	18,782	18,077
Showboat, Inc.	34,081	32,345	68.0	68.4	16,071	14,951

N/A — Not available.
*Hotel and other revenue is shown after deducting promotional allowances.
**Not applicable; loss for the year.
Excludes operations of Atlantis Hotel/Casino.

In Table C the revenue and gross operating profits of gaming operations are shown separately so that these benchmarks may be more closely analyzed. In this context, gross operating profit is operating profit, after all operating costs, but before interest costs and unallocated corporate expenses.

Information for this table has, for the most part, been obtained from "business segment" sections of annual reports of diversified corporations, or by adding interest costs to the indicated operating profits of corporations that are solely in the casino/hotel business.

For the group of companies included in this year's survey that provided the detailed analysis of revenue, casino revenue increased approximately 4 percent while hotel and other revenue rose approximately 23 percent compared with 1985. 1986 casino revenue approximated 73 percent of total casino/hotel revenue compared with 76 percent for 1985. Gross operating profit approximated 16 percent for both years.

(d) **(c) As a Percentage of (e)**		(e) **Total Casino/Hotel Revenue***		(f) **Gross Operating Profit**		(g) **(f) As a Percentage of (e)**	
1986	1985	**1986**	1985	**1986**	1985	**1986**	1985
N/A	13.8	**$509,703**	$260,318	**$ 92,623**	$ 56,608	**18.2**	21.8
21.3	19.5	**646,611**	619,808	**92,171**	81,699	**14.3**	13.2
38.2	36.4	**373,957**	306,993	**88,841**	89,180	**23.8**	29.1
37.0	32.2	**96,440**	93,152	**3,560**	(824)	**3.7**	**
32.0	32.0	**91,603**	84,730	**18,906**	14,126	**20.6**	16.7
4.0	3.4	**333,917**	330,676	**50,225**	51,020	**15.0**	15.4
54.7	44.2	**483,653**	366,652	**88,165**	76,358	**18.2**	20.8
21.9	22.0	**689,989**	664,328	**112,925**	119,915	**16.4**	18.1
8.1	8.1	**206,490**	194,280	**34,103**	27,560	**16.5**	14.2
24.6	20.3	**383,372**	341,814	**37,630**	28,947	**9.8**	8.5
28.5	27.7	**417,834**	416,403	**48,678**	47,683	**11.7**	11.5
43.8	41.7	**89,740**	87,446	**9,120**	9,322	**10.2**	10.7
30.9	30.5	**60,764**	59,299	**7,312**	5,081	**12.0**	8.6
32.0	31.6	**50,152**	47,296	**10,489**	9,006	**20.9**	19.0

COMMENTS FROM CORPORATIONS PRIMARILY IN THE GAMING INDUSTRY

The following are samples of comments taken from annual reports to shareholders of companies primarily engaged in the gaming business. For purposes of this study, these are defined as companies that derive 85 percent or more of their revenues from casino/hotel sources. Several of these companies this year substituted their SEC filing on Form 10-K for their annual report to shareholders. In these instances, comments with no signature are derived from this source.

Caesars World, Inc.

". . . At fiscal year-end [July 31, 1986], Caesars World had produced 13 consecutive quarters in which net income improved over the comparable quarter of the preceding year. For the second consecutive fiscal year, every one of our properties made positive contributions to earnings. . . ."

". . . During the past year we successfully placed $115 million in 6⅞ percent convertible subordinated debentures. As a result of this funding and our strong operating results, short-term investments at fiscal year-end stood at $151 million, compared with $26 million at July 31, 1985. This additional financial strength has reduced our need for short-term borrowings, will allow us to more easily finance capital improvements, and is immediately available for other corporate purposes.

"Caesars World is dedicated to maintaining the finest hotel, casino and resort facilities. . . . While this necessitates ongoing capital expenditure programs, we are gratified that the major modernization and expansion projects . . . are now essentially completed. The result is a significant increase in the company's cash flow.

". . . Our hotel/casinos . . . retain our position of preeminence in the high-limit, table-game marketplace. However, in recent years, our marketing programs also have successfully reached out to attract a broader range of customers."

"During fiscal 1986 both of our hotel/casinos in Nevada opened race and sports book facilities. . . . At Caesars Palace, the giant Olympiad Race and Sports Book . . . has resulted in [that operation] gaining a significantly larger share of the race and sports book market in the state of Nevada. . . .

". . . In northern Nevada . . . Caesars Tahoe increased its marketing efforts during the past year . . . and hosted more special events. . . .

". . . On the eastern seaboard, Caesars Atlantic City achieved success in the first full year of operation since its two-year, $85 million expansion and modernization program. . . .

". . . Your Company's management remains committed to sustaining the positive momentum that has been generated and nurtured during recent years. . . ."

Henry Gluck
Chairman of the Board and
Chief Executive Officer

J. Terrence Lanni
President and
Chief Operating Officer

Circus Circus Enterprises, Inc.

"We believe that Circus can deliver superior performance through the balance of the decade. We have virtually doubled our selling space since the summer of 1985, counting (in order) the opening of the 900-room Skyway Tower at Circus Circus-Reno, the 1,188-room Circus Skyrise at Circus Circus-Las Vegas, and this coming July, the 1,230-room Colorado Belle in Laughlin.

". . . As we scale these projects up to full strength . . . Circus [should] achieve a rate of average annual growth in earnings of 15-20 percent through decade's end, assuming no severe fluctuations in the economy.

"Our projection in last year's Annual Report was that our earnings would at least double by fiscal 1990 from a base of $1.00 per share in fiscal 1986. We hold to that projection."

". . . Our focus on cash flow should be in mind when reviewing last year's results. . . . Pretax cash flow from operations was up 20 percent compared with the previous year. But as we took steps to enhance future cash flows . . . these same steps penalized current earnings. That is, our redemption of $100 million principal amount of 15¾ percent Subordinated Notes resulted in an extraordinary charge to earnings of $.21 per share. Accounting conventions required that we record a loss (as an extraordinary item) for the premium we paid over the Notes' issuance price. . . ."

". . . All our operations did well in fiscal 1987. . . . And we once again had the highest operating profit margins among publicly owned gaming companies. . . ."

". . . The Circus Skyrise [Las Vegas], which opened on February 28, 1986, essentially ran a 100 percent occupancy . . . from the first night. . . ."

". . . The Reno market struggled during 1986, plagued first by winter storms, then hurt by the popular Vancouver Expo. . . . While there was almost no growth in the market's casino revenues for the year, Circus Circus-Reno still produced a 14 percent increase in its casino revenues, indicating a substantial advance in market share. But with slack walk-in business, the property turned in only a minimal increase (5 percent) in operating income and its operating margin was off from the prior year. . . . We have not yet gotten anything near the returns on our $50 million investment in the Skyway Tower that we deem acceptable. But we think they will come. . . ."

". . . In Laughlin, the Colorado Belle should be fully on line by the July 4 [1987] holiday. . . . Our competitive position in Laughlin, between our ownership of the Edgewater and Colorado Belle, should be premier in that market . . . [controlling] about 60 percent of the market's total rooms base and over 55 percent of its gaming units. . . ."

". . . The task ahead belongs to our people, who have always taken responsibility for and skillfully performed the company's number one job: making our customers come back because visiting our places is fun."

William G. Bennett
Chairman and Chief Executive Officer

William N. Pennington
President

Dunes Hotels and Casinos, Inc.

". . . The Company believes it is in the best interests of the readers to provide this summary . . . contained in this Annual Report on Form 10-K . . . due to the Company's continuing financial difficulties, including cash flow shortages, lack of working capital, inability to obtain financing from conventional sources, the bankruptcy proceeding of a significant subsidiary, uncertainties with respect to the collectibility $21 million of notes receivable, and exposure to liability from litigation. . . ."

". . . The Company has been experiencing significant liquidity problems over the past three years . . ."

". . . The Company sold its joint venture interest in an Atlantic City hotel/casino project for $21 million, represented by two interest bearing promissory notes. On the day of the sale, the joint venture filed a . . . Chapter 11. . . . The collectibility of the notes receivable is dependent on the satisfactory reorganization of the joint venture and resolution of certain contingencies. . . ."

". . . [The] First Modified Plan of Reorganization [for Dunes' Las Vegas properties] . . . was confirmed by the Bankruptcy Court . . . [Under its terms, the entity] must enter into an agreement to sell all or substantially all of its assets on or before May 1, 1987. . . . If not . . . the assets . . . may be sold at public auction . . . after June 1, 1987. . . ."

Elsinore Corporation

"Elsinore Corporation . . . wholly owns two casino hotels, the Four Queens . . . in downtown Las Vegas . . . and the Hyatt Lake Tahoe . . . and owns a 91.5 percent interest in . . . the Atlantis . . . in Atlantic City. The Four Queens and the Atlantis are operated by the Company, while the Hyatt Lake Tahoe is managed by Hyatt Corporation . . . under a long-term management agreement. . . ."

". . . Total revenues for 1986 increased . . . [by] 9.3 percent. This revenue increase is primarily attributable to increases in all revenue categories at the Four Queens. Despite deterioration in casino revenues in the Tahoe/Reno area, Hyatt Lake Tahoe's revenues remained stable attributable to continued demand for conference accommodations. . . ."

Golden Nugget, Inc.

"The Golden Nugget of today is substantially different from our Company of a year ago, and the accomplishments that brought about that difference have left us poised at the threshold of an exciting future. Our financial strength, our present and planned operating facilities and our reputation for excellence have positioned the Golden Nugget like never before to capitalize on the expanding entertainment and gaming industry."

"Our successful sale of the Boardwalk casino-hotel in Atlantic City was our most publicized accomplishment. . . . We believe that Atlantic City will become an increasingly important destination resort and convention site. However, this will not occur overnight and in the interim we believe that market share for most of the current gaming establishments will continue to decline. In January 1987, we evaluated the alternatives of selling the casino-hotel for a fair price, or retaining it and spending upwards of $100 million to expand the facility and convert it to a viable competitor for the market of the 1990's. The difficulty of the decision was mitigated substantially by the fact that we retained almost 15 acres of prime real estate in the Marina area . . . where we can construct an optimal facility when we decide to re-enter the market."

"With the sale of the Boardwalk casino-hotel, we strengthened our financial framework by eliminating $299 million principal amount of long-term debt with an effective interest rate of 13.3 percent. During 1986 we carried out extensive restructuring activities and eliminated five additional issues of long-term notes and bonds with effective interest rates up to 19.35 percent. These activities resulted in a substantial one-time extraordinary loss in 1986; however, they were designed to enhance the Company's future financial flexibility and to reduce significantly the future average cost of our long-term debt. They have given us a financial strength that many companies covet but few ever attain."

"The expansion of our existing Las Vegas resort hotel is substantially complete . . . we have quadrupled our hotel room capacity and the occupancy rate is continuing to average well in excess of 90%. Revenues and operating profits generated by the casino-hotel are up sharply in the first quarter of 1987. . . ."

". . . The maturity and growth pattern that Las Vegas has demonstrated in recent years underlies our recent decision to expand in that market. During the past few months, we have focused . . . on designing and planning . . . a major resort complex . . . on approximately 84 acres of land on the . . . Strip between Caesars Palace and the Fashion Show Mall. . . ."

"This newly conceived resort is being designed to be the most glamorous and extensively equipped entertainment and gaming complex in the world today . . ."

Stephen A. Wynn
Chairman of the Board and President

Pratt Hotel Corporation

"The Pratt Hotel Corporation . . . which became a publicly-held corporation in May 1985, owns and operates casino and non-casino hotels both domestically and internationally. The company, which has grown steadily and aggressively from ownership of one Holiday Inn franchise in 1967 . . . is rapidly positioning itself as one of the premiere gaming and hotel operators in the world. . . ."

". . . Our first full year of operation as a publicly-held company . . . was a year of growth in all phases of our business, despite a continuing competitive market in Atlantic City and an overbuilt domestic hotel industry. . . ."

". . . Gaming Division . . . improvements were a result of management's ability to increase revenues while stabilizing expenses at our largest component, the Sands Hotel and Casino, despite a continu-

ing competitive market in Atlantic City. . . ."

". . . We feel strongly that progress toward our long-term objectives will be achieved through growth in the casino hotel area. Our casino management capabilities have been demonstrated by our success with the Sands Hotel and Casino . . . Also, through our Advanced Casino Systems International subsidiary, we are licensing our expertise in casino management information and data processing to other casino operators. We entered into additional casino hotel ventures in 1986 and will continue this trend as casino gaming becomes legalized in more locations around the world. The Caribbean is a particular focus, due to the growing number of annual visitors to that region and our successful operation in San Juan in the past and Aruba presently. . . ."

". . . [In 1986] Pratt consummated a $38 million joint venture with Southmark Corporation of Dallas to purchase and renovate the Palace Hotel and Casino in San Juan, Puerto Rico. The hotel will reopen in the fall of 1987 as the Sands Hotel and Casino San Juan. . . ."

Jack E. Pratt
Chairman of the Board

William P. Weidner
President

Sahara Resorts

"All operating departments have effectively contributed toward expanding our growing market and maintaining customer loyalty. . . . Your company achieved an overall occupancy of 90.7 percent with an increase of $2.24 in room revenue per occupied room over the prior fiscal year."

"While both hotels have excellent convention facilities, the Sahara's proximity to the Las Vegas Convention Center is a definite factor in its increased convention business. . . ."

". . . We are planning to construct a new tower which will give us an additional 575 rooms at the Sahara Hotel . . . in addition . . . to . . . renovation of the Sahara's existing guest rooms. . . . This project, which will get under way shortly, will be completed in phases and cause minimal interference with our business. . . ."

". . . The Hacienda continues to enjoy record profitability. . . . One of its bright spots is . . . [a] 451 space full-service hookup . . . R.V. park. . . ."

Paul W. Lowden
Chairman of the Board
President and Chief Executive Officer

Scott Corporation

"Your Company's management and staff are encouraged by the improvement in operating results over 1985 and I am particularly gratified with the results obtained at the Union Plaza Hotel and Casino since mid-1986 when I was elected Chairman of the Board . . . and Chief Executive Officer."

"Although we haven't 'really' done anything yet, we have eliminated some unnecessary payroll, obtained better financing, and reduced other operating expenses to the point that the Company is back on a paying basis. . . ."

"The company has adopted a plan to divest itself of activities not directly related to the operation of the Union Plaza Hotel and Casino. Such activities have proven to be a continued drain on our assets and a burden to our operating statements. On December 30th, we abandoned the Tonopah Airport Development project and reported the loss in our consolidated statement of income for 1986. In March 1987 we negotiated an agreement with Nevada Automated Betting Systems, Inc., terminating contractual obligations which have adversely impacted the Company's net income annually since 1977. We are "playing for keeps" and expect all management efforts directed toward making the Union Plaza Hotel and Casino the most successful operation possible."

"Action was initiated during 1986 and additional steps will be implemented in 1987 to increase local awareness of the Union Plaza. Not only is the 'local' the most readily accessible market for increased business; but, experience has taught us that so long as they are treated right they will keep coming back and will bring their family and friends with them."

". . . Operating results for the first quarter of 1987 will be the best obtained in over five years. . . ."

John D. Gaughan
Chairman of the Board and
Chief Executive Officer

Showboat, Inc.

". . . [1986 was] a bustling year for the Showboat in both Las Vegas and Atlantic City, but we expect fiscal 1987 to be the busiest and most exciting in Showboat's history. . . ."

". . . Because the Showboat's custom. . . base in Las Vegas continues to increase, the Company has begun a modest expansion program to enlarge the casino to allow for 107 additional slot machines, an entertainment area and related facilities. . . ."

". . . Our Atlantic City Showboat building is now approximately 75 percent complete and is on target for opening . . . The . . . floor plan is designed to promote ease of customer access to all public areas within the building, as well as from the building to valet, bus and automobile parking. . . ."

". . . Projected cost for constructing, equipping and opening the Atlantic City Showboat has increased from initial projections of $195 million to approximately $230 million. . . . The Company, therefore, has periodically secured sources of financing in excess of budgeted contingency reserves. . . . [Also] the Company raised additional funds through the sale of 1,139,600 shares of . . . common stock. . . . The net proceeds . . . were approximately $21 million. . . ."

Joseph H. Kelley
Chairman of the Board,
President and Chief Executive Officer

Frank A. Modica
Executive Vice President and
Chief Operating Officer
Atlantic City Showboat, Inc. President

CASINO REVENUE AND PROMOTIONAL ALLOWANCES

Promotional allowances—in the form of complimentary rooms, food and beverages ("comps")—are an integral part of the casino/hotel industry and are considered routine costs for improving business.

However, in recent years, such allowances have increasingly come under considerable examination within the industry and among financial analysts. The question is: To what extent do "comps" capture and hold business? What is their value in terms of their costs as a percentage of business revenues?

Precise analysis is difficult. One of the reasons is that the amounts shown in Table D represent the retail value of these complimentary goods and services, whereas the actual costs to the casino/hotel are considerably less. Considerable sums are also spent for promotional expenses, including free travel and cash giveaways. The promotional allowances represent just one segment of the total marketing costs.

While a discernable trend is difficult, it is interesting to note that in 1986 for the companies providing this information, promotional allowances increased 2.7 percent and casino revenue increased 4.4 percent. In the aggregate, promotional allowances approximated 13 percent of casino revenue for both years.

Table D
Casino Revenue and Promotional Allowances
($000 Omitted)

	Casino Revenue		Promotional Allowances		As a Percentage of Casino Revenue	
	1986	1985	**1986**	1985	**1986**	1985
Bally Manufacturing Corporation	**N/A**	$224,522	**N/A**	$15,958	**N/A**	7.1
Caesars World, Inc.	**$508,908**	498,857	**$77,573**	75,924	**15.2**	15.2
Circus Circus Enterprises, Inc.	**230,967**	195,383	**13,156**	11,373	**5.7**	5.8
Dunes Hotels and Casinos, Inc.	**60,732**	63,140	**8,511**	10,482	**14.0**	16.6
Elsinore Corporation[1]	**62,306**	57,590	**8,270**	7,497	**13.3**	13.0
Golden Nugget, Inc.	**320,536**	319,433	**N/A**	N/A	**N/A**	N/A
Hilton Hotels Corporation	**219,138**	204,649	**27,891**	26,637	**12.7**	13.0
Holiday Corporation	**538,676**	517,966	**68,916**	66,758	**12.8**	12.9
Pratt Hotel Corporation	**189,343**	178,475	**18,088**	17,392	**9.6**	9.7
Ramada Inns, Inc.	**289,053**	272,470	**N/A**	39,020	**N/A**	14.3
Resorts International, Inc.	**298,817**	301,261	**39,936**	41,010	**13.4**	13.6
Sahara Resorts, Inc.	**50,421**	51,008	**6,945**	6,347	**13.8**	12.4
Scott Corporation	**41,982**	41,222	**7,641**	7,035	**18.2**	17.1
Showboat, Inc.	**34,081**	32,545	**2,105**	1,962	**6.2**	6.1

N/A — Not available
[1]Excludes operations of Atlantis Hotel/Casino

GAMING OPERATING PROFIT AS A PERCENTAGE OF GAMING ASSETS

Table E reflects gaming gross operating profit as a return on gaming operations assets. In general, the amount of identifiable gaming operations assets was obtained from the "business segment" sections of annual reports of diversified corporations, or as total assets for corporations that are solely casino/hotel corporations. (For a definition of gaming gross operating profit, see page 11.)

In 1986, gross operating profit as a percentage of identifiable gaming operations assets decreased to 12.4 percent from 13.5 percent in 1985. As in prior years, the dynamic year-to-year changes of individual companies are highlighted in this table.

Table E
Gaming Operating Profit as a Percentage of Gaming Assets
($000 Omitted)

	Identifiable Gaming Operation Assets		Gaming Gross Operating Profit		As a Percentage of Assets	
	1986	1985	**1986**	1985	**1986**	1985
Bally Manufacturing Corporation	**$1,091,468**	$356,135	**$ 92,623**	$ 56,608	**8.5**	15.9
Caesars World, Inc.	**563,646**	559,019	**92,171**	81,699	**16.4**	14.6
Circus Circus Enterprises, Inc.	**465,220**	490,144	**88,841**	89,180	**19.1**	18.2
Dunes Hotels and Casinos, Inc.	**102,778**	101,944	**3,560**	(824)	**3.5**	*
Elsinore Corporation[1]	**174,925**	191,117	**18,906**	14,126	**10.8**	7.4
Golden Nugget, Inc.	**N/A**	N/A	**50,225**	51,020	**N/A**	N/A
Hilton Hotels Corporation	**427,556**	347,437	**88,165**	76,358	**20.6**	22.0
Holiday Corporation	**828,383**	859,046	**112,925**	119,915	**13.6**	14.0
Pratt Hotel Corporation	**N/A**	195,447	**34,103**	27,560	**N/A**	14.1
Ramada Inns, Inc.	**333,674**	316,076	**37,630**	28,947	**11.3**	9.2
Resorts International, Inc.	**628,283**	474,588	**48,678**	47,683	**7.8**	10.1
Sahara Resorts, Inc.	**91,899**	95,800	**9,120**	9,322	**9.9**	9.7
Scott Corporation	**77,191**	83,784	**7,312**	5,081	**9.5**	6.1
Showboat, Inc.	**185,983**	112,815	**10,489**	9,006	**5.6**	8.0

N/A — Not available
*Not applicable; loss for the year
[1]Excludes operations of Atlantis Hotel/Casino

CORPORATE INTEREST EXPENSE, DEPRECIATION AND AMORTIZATION

Corporate interest expense fluctuated widely in 1986. Several corporations took advantage of the reduction in interest rates to obtain debt financing for new projects, expansion of existing projects, or corporate acquisitions. This resulted in total interest expense increasing in 1986 to 106.6 percent of last year's figure despite lower interest rates.

It should be noted that interest expenses as set forth are interest costs net of such costs capitalized. Therefore, this tabulation may not give a complete perspective of a corporation's full interest load.

Depreciation and amortization continued to climb in 1986, totaling 111.9 percent of 1985. Additional gaming assets were the prime contributor to the depreciation increase.

Table F
Corporate Interest Expense, Depreciation and Amortization
($000 Omitted)

	Interest Expense			Depreciation and Amortization		
	1986	1985	1986 % of 1985	**1986**	1985	1986 % of 1985
Bally Manufacturing Corporation	**$141,107**	$ 83,118	169.8	**$142,219**	$111,326	127.8
Caesars World, Inc.	**37,417**	41,228	90.8	**38,549**	34,555	111.6
Circus Circus Enterprises, Inc.	**23,201**	29,540	78.5	**24,691**	17,334	142.4
Dunes Hotels and Casinos, Inc.	**14,309**	14,071	101.7	**5,767**	5,932	97.2
Elsinore Corporation[1]	**11,213**	8,853	126.7	**4,828**	4,537	106.4
Golden Nugget, Inc.	**76,623**	73,143	104.8	**27,342**	26,502	103.1
Hilton Hotels Corporation[2]	**34,045**	20,332	167.5	**48,360**	46,272	104.5
Holiday Corporation	**135,741**[3]	148,192[3]	91.6	**122,721**[2]	123,779[2]	99.2
Pratt Hotel Corporation	**23,677**	22,613	104.7	**15,004**	13,836	108.4
Ramada Inns, Inc.[3]	**35,751**	35,096	101.9	**39,182**	30,913	126.8
Resorts International, Inc.	**64,577**	80,139	80.6	**23,914**	24,264	98.6
Sahara Resorts, Inc.	**12,846**	13,329	96.4	**4,413**	4,425	99.7
Scott Corporation	**6,312**	7,054	89.5	**5,301**	5,220	101.6
Showboat, Inc.	**2,733**	4,396	62.2	**2,935**	2,733	107.4

[1]Excludes operations of Atlantis Hotel/Casino
[2]Excludes joint ventures or other unconsolidated operating entities
[3]Includes proportionate share from unconsolidated affiliates

TOTAL CORPORATE ASSETS, SHAREHOLDERS' EQUITY, RETURN ON SHAREHOLDERS' EQUITY AND DEBT-TO-EQUITY RATIO

Table G provides additional yardsticks by which financial analysts can judge corporate performance.

The ratio of debt to equity and the amount of equity as a percentage of total assets frequently indicate to what extent management is depending on borrowed funds. Financial analysts generally consider a company with a high debt-to-equity ratio to be more volatile. However, there are a number of exceptions.

The debt-to-equity ratio is calculated by dividing the long-term debt (including current maturities) at year-end by the ending shareholders' equity. The 1986 return on shareholders' equity (computed by dividing the net income by the average shareholders' equity at the beginning and the end of the year) decreased because of lower earnings from the nongaming segments of diversified companies as well as increased interest and depreciation.

For 1986, the aggregate ratio of shareholders' equity to total assets approximated 29 percent, a slight decrease from 1985.

Table G
Total Corporate Assets, Shareholders' Equity, Return on Shareholders' Equity and Debt-to-Equity Ratio
($000 omitted)

	(a)	(b)	(c)	(d)	(e)
	Total Assets 1986	**Shareholders' Equity 1986**	**(b) As a Percentage of (a)**	**1986 Return on Shareholders' Equity**	**Debt to Equity Ratio**
Bally Manufacturing Corporation	$2,313,968	$492,956	21.3	5.3	2.7
Caesars World, Inc.	767,203	269,774	35.2	16.5	1.3
Circus Circus Enterprises, Inc.	465,220	221,664	47.7	13.6	0.7
Dunes Hotels and Casinos, Inc.	102,778	(40,843)	**	*	**
Elsinore Corporation[1]	174,925	(13,952)	**	*	**
Golden Nugget, Inc.	866,232	242,834	28.0	*	2.1
Hilton Hotels Corporation[2]	1,302,273	707,352	54.3	14.4	0.4
Holiday Corporation[3]	2,278,189	638,733	28.0	15.9	1.8
Pratt Hotel Corporation	237,765	4,219	1.8	136.9	43.2
Ramada Inns, Inc.[4]	844,143	301,532	35.7	3.6	1.3
Resorts International, Inc.	818,713	102,711	12.6	*	5.4
Sahara Resorts, Inc.	116,581	11,894	10.2	3.5	7.7
Scott Corporation	77,191	20,553	26.6	0.4	2.4
Showboat, Inc.	185,983	54,414	29.3	10.9	2.2

*Not applicable; loss for the year.
**Not applicable; shareholders' deficiency as of 12/31/86.
[1] Excludes operations of Atlantis Hotel/Casino.
[2] Excluding share of debt of joint ventures or other unconsolidated operating entities.

THE CASINO GAMING INDUSTRY— AN OVERVIEW BY FINANCIAL ANALYSTS

"Statewide, 1987 Nevada growth will be in a 10 to 12 percent range"

On the whole, gaming operations in Southern Nevada improved greatly in 1986, particularly during the final quarter, while northern Nevada operations did not experience any gains until the weather improved in the fourth period.

In the aggregate, with an improving economic scenario, we believe that statewide growth in the 10 to 12 percent range is likely with Las Vegas generating 12 percent, the northern Nevada regions at 7 to 8 percent, and Laughlin in the 16 to 18 percent range.

Atlantic City's 1987 casino capacity increases are manageable. The city's non-casino room count recently has been expanded, adding about 50 percent to the city's overall room count. The Showboat brings the total hotel/casino room count to 6,600. Including non-casino rooms, Atlantic City's hotel capacity was set to reach about 11,000 first-class rooms by the end of March 1987. This suggests that facilities exist to attract more customers who will extend their visits. Group/convention and tour/trip business will be easier to obtain and less expensive for operators. When individual hotel/casinos increase their room capacity, we believe this leverages casino win levels significantly.

Steven Eisenberg
Investment Research Analyst
Bear, Stearns & Co., Inc.

"Slots, keno, race and sports book games will continue to take market share from table games"

For 1987, the outlook for domestic casino operations is mixed from a number of perspectives.

1. The Nevada industry appears to be on solid ground with continued expansion in Las Vegas as well as good recovery anticipated in Reno and Tahoe (since the comparisons with 1986 figures are easy). In Atlantic City, however, the market will be quite competitive with the addition of the Showboat, the changing ownership of the Golden Nugget, and the possible acquisition of Resorts International by Donald Trump. We do not expect much earnings expansion in the East.
2. Another divergence will come from the continued prospering of the strong operators and the continued weakening of the laggards.
3. It appears that slots, keno and race and sports book wagering will continue to take market share away from table games. The continued aging of the table game player combined with the increased sophistication and acceptability of the slot player will add validity to this market trend in years to come.
4. Overall, we look for both Nevada and Atlantic City to grow at faster rates than they grew in 1986; 6.7 percent and 4.2 percent, respectively. However, profitability growth will be better in Nevada since increased capacity is not as substantial an issue and the comparisons will be easier in that market.

Dennis I. Forst
Vice President, Senior Analyst
Security Pacific Merchant Banking Group

"Has immense investment in Atlantic City paid off?"

Midyear 1987 marked the ninth anniversary of casino gaming in Atlantic City.

In that period $3.2 billion has been invested in 12 casino/hotels with 6,853 rooms. That works out to $462,500 per room—by any measurement a high price to pay for market entry.

Has the investment paid off?

The answer depends on who you ask. Tax collectors certainly have smiles on their faces: over $1.8 billion has been paid to the city and state in direct taxes. Then there are the people employed by the casino/hotels. Some 40,000 are in above-average-paying jobs. (In 1986 the average wages and fringes per employee came to $21,470). As for the bettors they seem happy; they keep coming back time after time—having lost $12.8 billion in the casinos. Many seem to enjoy the almost-free bus rides, courtesy of the 12 casinos.

However, from an investment perspective, the $3.2 billion invested in building 12 casinos has produced mixed results. In the past two years, Atlantic City's casino industry's profit margins have been less than half the level of corporate America.

Furthermore, admission ticket prices continue to climb. The Golden Nugget (with the smallest casino in town) sold for $440 million, compared with the Hilton, which earlier went for $320 million. It is our estimate that the new Taj Mahal being built by Resorts International—with its 1,200 rooms and 120,000 square feet casino—will wind up costing $750 million. When Bally completes the tower addition to its Park Place, it will have well over $973 million invested in its two Atlantic City casinos alone. Ramada is investing an additional $200 million to expand and upgrade its $368-million Tropicana. Additional projects, still seeking financing, are in the planning stage.

Some investors think they see light at the end of the tunnel. But could it be (in 1987, and particularly in 1988) the headlight of an oncoming train?

We are generally bearish about Atlantic City casino earnings prospects for the next two years. First, gaming capacity is continuing to increase faster than demand. Second, casino marketing departments aggressively protect their market share. Among inducements to bring in more players was the adoption of triple-odds (versus double-odds) craps. Six casinos now offer these odds which can reduce substantially the casino hold percentage. Two casinos now deal blackjack from four-deck shoes compared with eight-deck shoes previously. This practice also reduces house odds. Even more devastating are the "bus wars." Cash and vouch-

ers to bus passengers have mounted as high as $35 per passenger.

If operators maintain their aggressive bus-marketing programs through the summer, profit margins could be affected. As market shares shift, only operators with adequate working capital will enjoy better times in the early 1990s.

Marvin B. Roffman
Research Analyst
Janney Montgomery Scott, Inc.

. . . the disparity (in Atlantic City) between the most and least profitable casinos is expected to widen."

The bright spot in casino gaming this year is likely to be Las Vegas and the state of Nevada, while Atlantic City spars with continued overcapacity and severe profit pressures.

In Las Vegas, the expansion and/or renovation of several of the larger casino/hotels is combining with more effective marketing programs and the return of some high rollers to boost results. Also, Atlantic City no longer seems to be siphoning off Las Vegas customers as was true in the early part of the decade, while any impact from the California Lottery appears to have been minimized.

Northern Nevada is always subject to weather vagaries which have been on the plus side in early 1987. A stronger economy in Northern California and the Northwest, the absence of the Vancouver fair and some revival in the high-roller business should help the 1987 outlook in Reno and Tahoe.

Atlantic City will face familiar problems in 1987—absorbing new capacity, declining "win" per existing casino and severe profit pressures. The opening of Showboat brings 10 percent more capacity to the market, while the expansion of the Tropicana's casino adds 1 percent. Donald Trump's purchase of Resorts International leaves the future of the new Taj Mahal and the "old" Resorts property up in the air. What does appear certain is that more net new capacity will be brought on late this year or in 1988. With the city still struggling with its infrastructure problems (and with discernible progress on these problems unlikely until 1989), we expect the new capacity to simply steal "win" and profits from the existing casinos. Thus, we expect that 1987 and 1988 will be characterized by increasing revenues citywide, but intensified profit pressures. Moreover, the disparity between the most and least profitable casinos is expected to widen.

John J. Robs
Associate Managing Director
Wertheim Schroder & Co., Inc.

"The biggest risk to the casino industry is that federal lawmakers will withhold table-game winnings of foreign players"

Generally, 1986 was not a particularly great year for the casino gaming companies. Lotteries, however, were another story. Despite the admittedly high cost to the player in comparison with casino games, the lottery steamroller continues to plow ahead. Several states with lotteries have indicated they might likely soon merge to form a mega-lottery system that could provide prizes as high as $80 million for a $1 bet.

In our view, the biggest risk to the overall casino industry is that federal lawmakers in Washington are apparently eager to somehow withhold for tax purposes the table-game winnings of foreign gamers. If this proposal gets through Congress, it's virtually certain that the next step will be to withhold from domestic players. If this happens, it will present the industry with a logistical and bookkeeping nightmare. Hopefully, the industry can fend off such a federal incursion. In this regard, in our opinion, the U.S. Treasury regulation requiring the reporting of transactions over $10,000 may have caused table games to decline by some 10-15 percent over the last year.

In Nevada, there is little question, in our view, that the opening of the California Lottery took at least $100 million to $200 million of business away from the tables and slots of Nevada, with the effect particularly noticeable in the northern part, where a combination of bad weather, layoffs in Silicon Valley, and perhaps the Vancouver Expo, all played a role in reducing casino revenues. Fortuntely, these three negative factors should not be pressuring the numbers in 1987.

In Las Vegas, operations are going much more smoothly this year. Perhaps because of the booming stock market, we sense that people are willing to spend more freely. We fully expect that 1987 will see an increase in the Nevada gross win of at least 6 percent. More importantly, any revenue growth should be directly translated into growth of profits.

As for Atlantic City, improvement in overall profitability is not probable in 1987. The opening of the Showboat and the Taj Mahal will represent an increase of about 30 percent in the city's total casino square footage. No one can predict with any certainty what effect this tremendous capacity increase will have; however, even with an 8 to 10 percent gross win growth, profits of most operators will be under pressure. With the increasingly aggressive promotions needed to attract bused customers, and the new casinos bidding for experienced personnel, everyone's cost structure has to increase.

Harold Vogel, CFA
Vice President
Merrill Lynch

NEVADA SUMMARY

For the first half of 1986, operating results of Nevada casinos were disappointing. However, during the second half of the year there was a radical turnabout which continued through the balance of 1987. (This upswing is not reflected in the accompanying charts and Table K, which report results only through the end of the state's fiscal year ending June 30, 1986.)

While the dramatic recovery has not been felt as strongly in northern Nevada resort areas, the state's operators generally are exuding the kind of enthusiasm last seen before Atlantic City became a competitor. The strong overall showing in calendar 1986, and anticipated in 1987, also tends to neutralize speculation that Nevada's casino economy would be permanently injured by the California Lottery.

With rare exceptions, there are cycles to all leisure-time areas. Southern Nevada is a vigorous example of a resort region snapping back from a downswing by learning to adjust to changing demands of the marketplace. This is a tribute to the harnessed creative energy of the area's government and casino leaders.

Of major importance to Nevada's economic growth are significant recent additions to room capacity especially on Las Vegas' Strip by companies which are primarily Nevada-oriented and/or have a large segment of their casino/hotel operations in that state. There was Circus Circus, which added 1,188 rooms to its Circus Skyrise; Hilton, which added 800 rooms to the Flamingo Hilton in 1986; and Ramada, with its new 806-room guest tower at the Tropicana.

Further signs of progress and a sense of excitement were provided by other recent events, including an increased show of interest by foreign as well as local investors. For example, The Aladdin reopened under management of the Japanese Ginji Yasuda group. The new 310-room Gold Coast Hotel and Casino (60,000 square feet), heralded as catering to the local market, was spearheaded by a Nevada investment group. Additionally, downtown there was a 360-room addition to the Downtown Lady Luck and a 1,400-room addition to the Golden Nugget.

In spite of these increases in capacity, many operators report that average occupancy rates have remained above 90 percent. That, plus the hard dollar increases in rooms revenue documented in Table C, further substantiate the fact that Southern Nevada has become a world-class tourist destination, with facilities appealing to visitors from all walks of life—from high rollers, to conventioneers, to tour groups, to individuals seeking more than the daily routine of their lives. Also, compared with Atlantic City's preponderance of day-trippers, the average Las Vegas stay hovers at a little over three days, with over 40 percent of the more than 15 million visitors to Las Vegas arriving by air.

While downtown Las Vegas continued to lag in comparison with The Strip, all city leaders have high expectations for a downtown revival. To enhance that area's image and economy, a farsighted redevelopment study and plan was initiated by the city's Department of Economic & Urban Development in 1986. It calls for creation of a dynamic, diversified "festival" environment similar to Boston's Faneuil Hall/Quincy Marketplace, or Baltimore's Inner Harbor. James Rouse, who created the latter two projects, has been asked to chair an exploratory development group.

Only a few small blotches remain on the Las Vegas economic horizon. Several operations which have been financially uncertain still have not been resolved. For these projects and others which fail to perform adequately there will be continuing shakeouts and changes in ownership.

However, Las Vegas was a city created by optimists and dreamers. Several new concepts further substantiate that Las Vegas' pioneering entrepreneurship is alive and well:

- Golden Nugget's plans for a new $500 million, 3,300-room hotel/casino on The Strip "designed to be the most glamorous and extensively equipped entertainment and gaming complex in the world today."
- Caesars' plans for a first-class shopping center.
- An investment group's proposal for a mega-resort that would include nine hotels with 6,000 rooms built around one casino.

All of this momentum and excitement have attracted attention not only from the public in general but from Wall Street and potential investors, both domestic and foreign. This factor by itself will add fuel to the merger, acquisition and takeover movement.

Down the Colorado River, but still in Clark County, the town of Laughlin continued to be the bright star in the casino firmament. Again, Nevada's fiscal 1986 figures mask progress made in the second half of calendar year 1986 and the first part of 1987, although the overall profit margin remained the highest of any area in the state. New projects under construction and being planned will greatly expand the area's base. A new airport and other improvements will provide a stronger infrastructure. And with the opening of Circus Circus' Colorado Belle at midyear, both casino space and rooms capacity of this lively mini-resort will be substantially increased.

Major challenges continue to exist for casinos in the Reno/Tahoe region, which has been in a no-growth situation for several years. Some observers attribute the generally poor 1986 showing to an unruly winter in the early months of the year, which closed many highways, and to the Vancouver Expo in the summer months, which reportedly siphoned off the normal flow of summer visitors from Northern California.

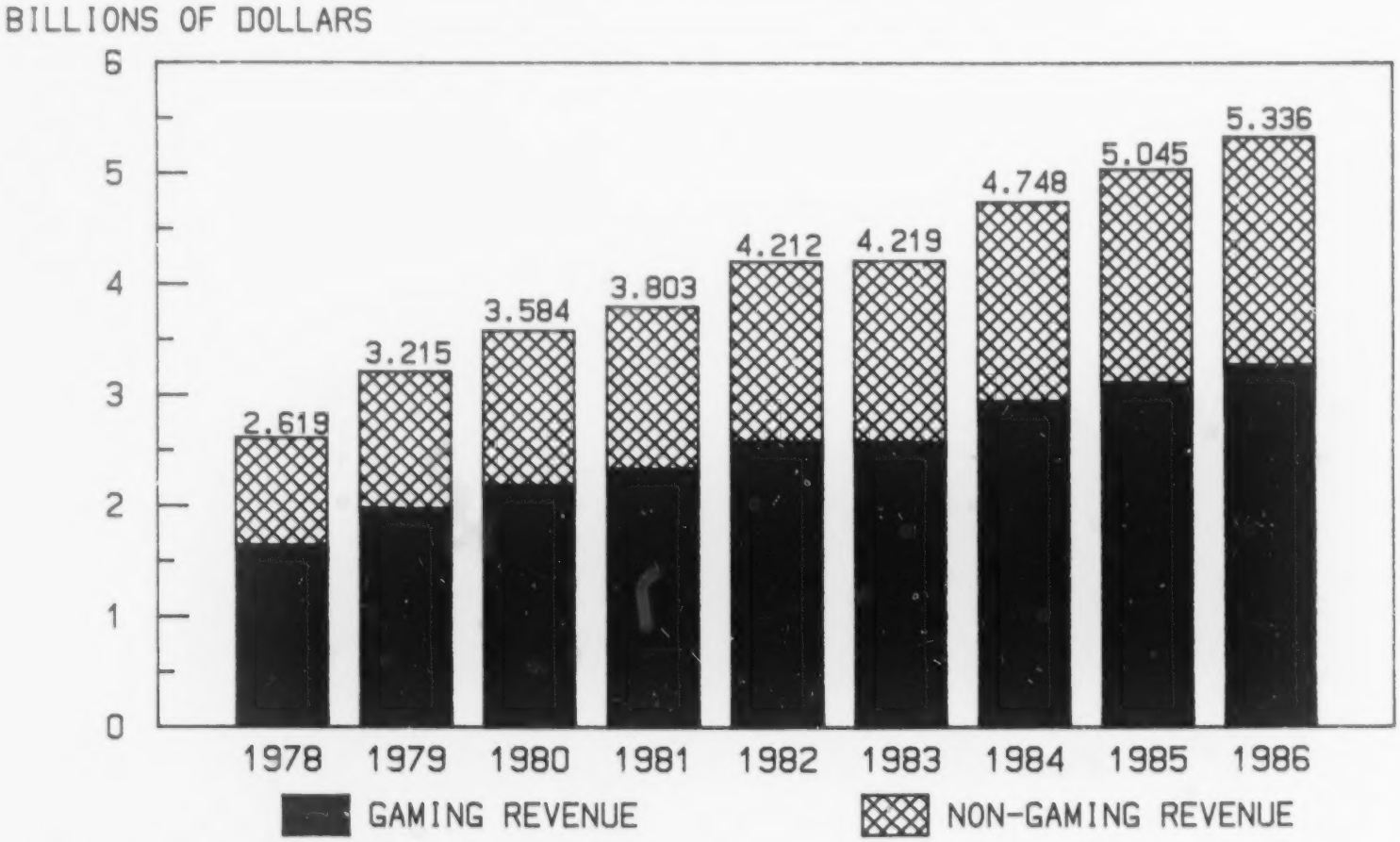
Lumping together Douglas County (South Lake Tahoe) and Washoe County (Reno/Sparks) results, total revenues of the 37 casino/hotels in those areas man-

aged a slim increase approximating 2 percent in fiscal 1986. However, the group as a whole registered an even more precipitous decline of income before federal income taxes, considering the loss of $15.9 million posted by the seven casino/hotels in Douglas County, the only area in the state to be in the red. Although no major new developments are planned for this region, with its great natural attractions and seeming potential, operators have vowed both joint and independent actions to improve results in 1987.

WASHOE
COUNTY
ELKO COUNTY
ELKO
RENO/SPARKS
Lake
Tahoe
CARSON CITY
DOUGLAS
COUNTY
CALIFORNIA
NEVADA
CLARK COUNTY
LAS VEGAS
LAUGHLIN

CHART H

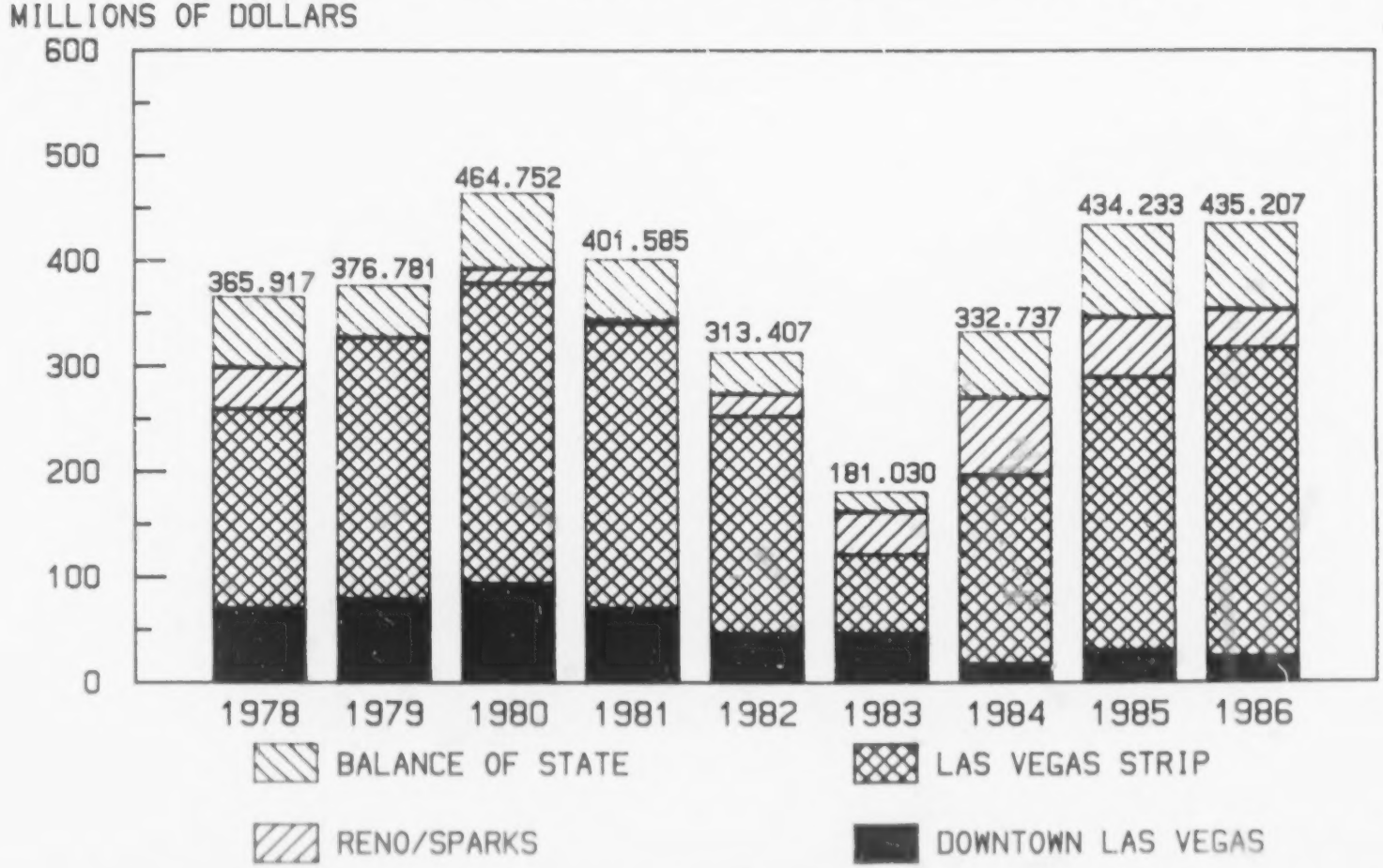
CURRENT DOLLAR TOTAL GROSS REVENUES FOR NEVADA'S GROUP I CASINOS FISCAL YEAR 1978 - FISCAL YEAR 1986



SOURCE: STATE OF NEVADA, GAMING CONTROL BOARD

CHART J

CURRENT DOLLAR PRETAX PROFITS
BY MAJOR MARKET AREA - GROUP I CASINOS
FISCAL YEAR 1978 - FISCAL YEAR 1986



SOURCE: STATE OF NEVADA, GAMING CONTROL BOARD.
FOOTNOTE: IN FISCAL 1979 RENO/SPARKS SHOWED A NET LOSS.

Table K
Nevada Operating Results
Licensees Grossing $1 Million or More in Gaming Revenue
Year Ended June 30, 1986
($000 omitted)

	Statewide		Clark County Strip		Clark County Downtown		Clark County Boulder Highway	
Number of Locations	145		35		21		6	
	$	%	$	%	$	%	$	%
Condensed Income Summary:								
Revenue:								
Casino	$3,264,287	61.2	$1,371,208	57.6	$486,828	69.3	$ 80,328	66.8
Hotel and Other	2,071,961	38.8	1,009,613	42.4	216,107	30.7	39,955	33.2
Total	5,336,248	100.0	2,380,821	100.0	702,935	100.0	120,283	100.0
Costs and Expenses (Net):								
Total Exclusive of Items Shown Below	4,383,707	82.1	1,866,485	78.4	601,306	85.5	90,265	75.1
Interest	229,264	4.3	103,604	4.4	31,592	4.5	5,782	4.8
Depreciation and Amortization	288,070	5.4	117,067	4.9	46,011	6.6	6,894	5.7
Total	4,901,041	91.8	2,087,156	87.7	678,909	96.6	102,941	85.6
Income (Loss) Before Federal Income Tax and Extraordinary Items	$ 435,207	8.2	$ 293,665	12.3	$ 24,026	3.4	$ 17,342	14.4
Supplementary Casino Information:								
Casino Revenue:								
Pit	$1,361,440	41.7	$ 715,356	52.2	$185,257	38.1	$17,682	22.0
Coin-operated Machines	1,768,733	54.2	589,118	43.0	280,972	57.7	59,938	74.6
Other	134,114	4.1	66,734	4.8	20,599	4.2	2,708	3.4
Total	3,264,287	100.0	1,371,208	100.0	486,828	100.0	80,328	100.0
Costs and Expenses:								
Labor	741,441	22.7	317,334	23.2	112,013	23.0	16,163	20.1
Other	858,573	26.3	399,489	29.1	120,452	24.8	12,402	14.5
Total	1,600,014	49.0	716,823	52.3	232,465	47.8	28,565	35.6
Casino Department Income	$1,664,273	51.0	$ 654,385	47.7	$254,363	52.2	$51,763	64.4
Revenue Information per Location:								
Average Revenue	$36,802		$ 68,023		$33,473		$20,047	
Upper Quartile	51,448		106,114		52,455		17,275	
Median	17,068		42,400		20,454		10,626	
Lower Quartile	5,369		11,801		6,817		7,292	

Clark County Laughlin		Douglas County South Lake Tahoe		Elko County		Washoe County Reno/Sparks		Balance of State	
6		7		12		30		28	
$	%	$	%	$	%	$	%	$	%
$174,945	73.3	$275,536	61.8	$ 73,930	58.9	$592,258	60.9	$209,254	59.9
63,726	26.7	170,310	38.2	51,517	41.1	380,567	39.1	140,166	40.1
238,671	100.0	445,846	100.0	125,447	100.0	972,825	100.0	349,420	100.0
181,465	76.0	418,453	93.9	107,370	85.6	841,394	86.5	276,969	79.3
6,390	2.7	17,967	4.0	8,568	6.8	39,705	4.1	15,656	4.5
10,062	4.2	25,286	5.7	9,079	7.2	55,830	5.7	17,841	5.1
197,917	82.9	461,706	103.6	125,017	99.6	936,929	96.3	310,466	88.9
$ 40,754	17.1	($ 15,860)	(3.6)	$ 430	.4	$ 35,896	3.7	$ 38,954	11.1
$ 38,396	22.0	$129,719	47.1	$24,300	32.9	$197,476	33.3	$ 53,254	25.5
131,233	75.0	136,741	49.6	48,361	65.4	374,164	63.2	148,206	70.8
5,316	3.0	9,076	3.3	1,269	1.7	20,618	3.5	7,794	3.8
174,945	100.0	275,536	100.0	73,930	100.0	592,258	100.0	209,254	100.0
27,963	16.0	68,085	24.7	16,372	22.2	143,756	24.3	39,755	19.0
31,917	18.2	103,306	37.5	16,425	22.2	130,892	22.1	43,690	20.9
59,880	34.2	171,391	62.2	32,797	44.4	274,648	46.4	83,445	39.9
$115,065	65.8	$104,145	37.8	$41,133	55.6	$317,610	53.6	$125,809	60.1
$39,778		$63,692		$10,454		$32,428		$12,479	
58,729		97,869		14,346		43,220		17,279	
45,874		64,900		8,582		16,723		5,649	
27,676		6,964		5,044		7,770		3,108	

ATLANTIC CITY SUMMARY

Overall, Atlantic City's casinos reported better operating results in calendar year 1986. With no major additions to casino square footage during the year, the manager of the 11 existing properties were able to control their operating costs to a much greater degree, which resulted in an approximate 15 percent increase in income before interest and depreciation, compared with the 7 percent increase in total revenue, which reached $2.28 billion.

To better highlight operating performance, a new section (the cross-hatched portion) has been added to Chart L, page 29, to show cash flow (income before interest and depreciation) as well as the customary section for income before income taxes.

In many ways this demonstrates the highly leveraged way in which the casino industry is operating in the Atlantic City marketplace. And although interest rates in 1986 were lower than 1987, total interest costs (indicative of the capital amount leveraged) rose to an average of 9.6 percent of total revenue compared with 8.8 percent for 1986.

Hence, while income before income taxes remains unimpressive—showing $110 million in 1986 vs. $102 million in 1985, equivalent to an aggregate average pretax margin of 4.3 percent compared with 4.2 percent in 1985—the cash flow increased significantly in 1986, to roughly $510 million (the highest ever), equivalent to 19.8 percent of total revenues. This compares with $447 million in 1985, equivalent to 18.6 percent.

In fact, an examination of Chart L makes it clear that Atlantic City casinos have been producing significant funds in the past three years to meet debt service for this capital-gluttonous industry. This factor underscores why substantial amounts of money have been available to leverage these $300 million properties even though they do not generally have access to normal commercial financing sources.

In other sectors—some large, some small but still material—Atlantic City made progress in 1986.

In the day-to-day routine, operators continued to monitor and conserve all costs. Worth noting: "comp" allowances on the average were reduced a visible 1.2 percentage points over 1986, clear evidence that adjustments are being made for the type of customers which have become the city's bread-and-butter. The current question facing the Atlantic City industry is: Will comp costs accelerate with the capacity increase?

The changing revenue mix was underscored by the continuing growth of coin-operated games over table games. In 1986, coin games represented 52 percent of casino revenue—up from 50.7 percent in 1985.

At the construction level, considerable additions have been made to casino and non-casino guest rooms, bringing the mid-1987 total close to 12,000. Anticipated improvements in air and rail service seem near and new lanes for the Atlantic City Expressway and Garden State Parkway are under construction.

As much as the infrastructure predicament, a major problem with Atlantic City's image has been public overexpectations which ignored the interplay of normal market forces.

By 1981, a scant four years after the city's resurrection the nine casinos passed the $1 billion revenue mark. Industry leaders with a stake in the new market spoke ecstatically about the future and the casino industry's never-ending possibilities. Subsequently, the truth—that continuous exponential expansion is simply not possible without developing new markets—became hard to swallow.

Although Atlantic City casinos ended 1986 on a revenue upswing—reporting an average 9.1 percent year-to-year increase for the month of December, and an 8.3 percent increase for the first four months of 1987—there is no reason to expect improvements in overall or individual operating profits margin in 1987 and 1988. The new Showboat, which opened in April, added 60,000 square feet of casino space to the resort enclave. The Showboat will likely have the same effect on the market that Trump's Castle produced when it opened in 1985. Subsequently, early in 1988, Resorts' new Taj Mahal is due to open; this will produce further market dislocations.

Hence, Atlantic City will not duplicate its 1986 bottom-line increase in 1987 or 1988, although L&H forecasts that total revenue should increase in excess of 8 percent in 1987, approaching $2.5 billion in 1987.

In short, Atlantic City gaming operations will continue to face several more uncertain years before they can be in a position to maneuver a major upswing. After that, with no additional casinos planned, New Jersey operators may have an opportunity to produce more vigorous operating results.

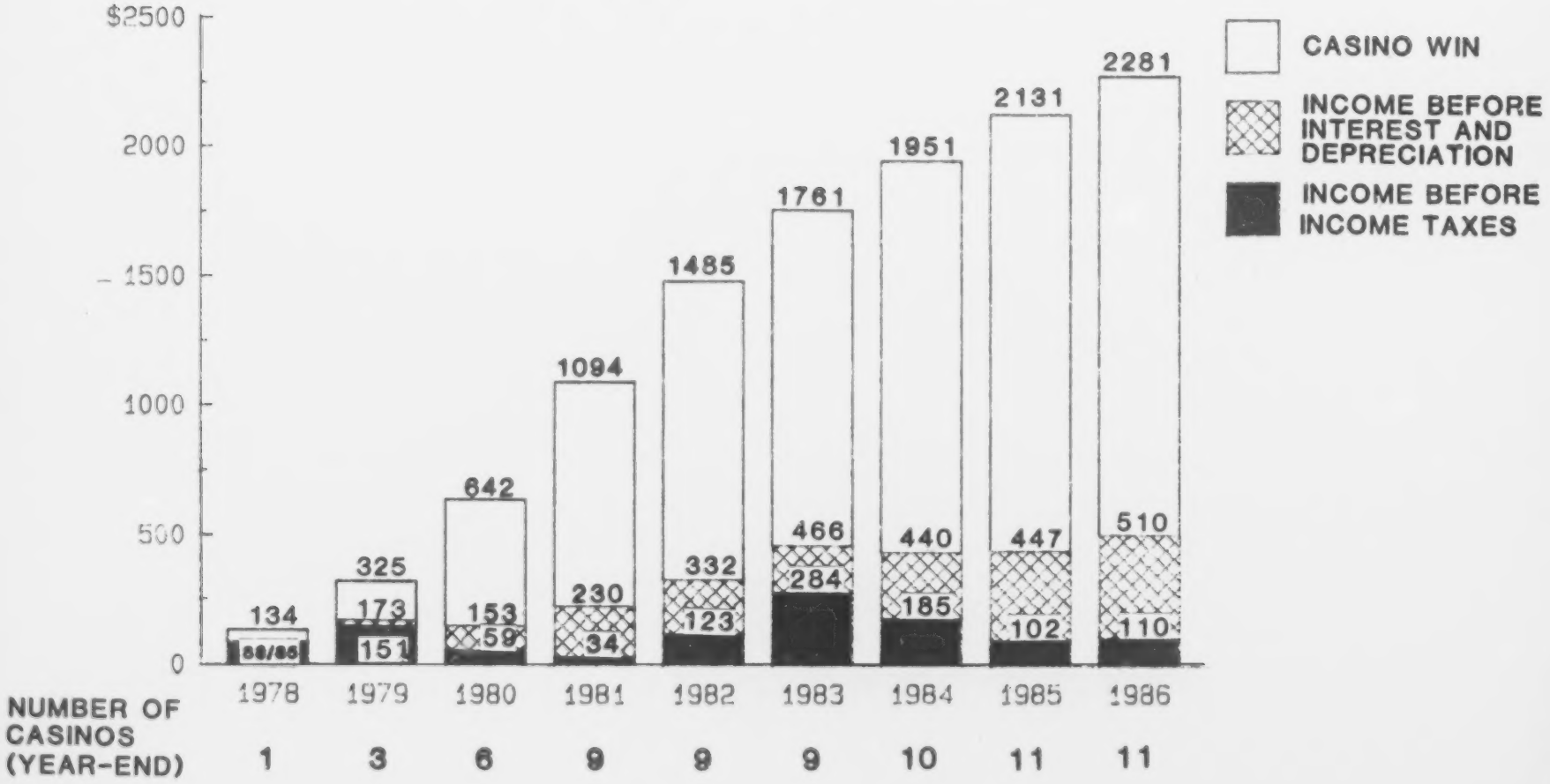
But to reach the maximum long-term potential there must be clear evidence that major infrastructure problems are being resolved and that operators have developed a successful program to attract new clientele.

In the final analysis, it is well to recall this adage: Success is not a destination, it is a journey. All the achievements in between are mere milestones along the way.

The detailed information in Table M, on pages 30-32 was derived from annual reports filed with the New Jersey Casino Control Commission.

CHART L

ATLANTIC CITY OPERATING RESULTS
(In Millions of Dollars)



Source: Laventhol & Horwath.

Table M
Atlantic City Operating Results
($000 omitted)

	Total		Atlantis		Bally's Park Place		Caesars Atlantic City	
Date Opened			Apr 1981		Dec 1979		July 1979	
	$	%	$	%	$	%	$	%
Condensed Income Summary:								
Revenue:								
Casino	**$2,280,761**	**88.7**	$104,175	84.7	$228,012	88.2	$260,170	88.9
Hotel and Other	**566,727**	**22.1**	31,995	26.0	45,041	17.4	68,627	23.4
Promotional Allowances	**(277,629)**	**(10.8)**	(13,230)	(10.7)	(14,510)	(5.6)	(36,055)	(12.3)
Total	**2,569,859**	**100.0**	122,940	100.0	258,543	100.0	292,742	100.0
Costs and Expenses (Net):								
Total Exclusive of Items Shown Below	**2,059,665**	**80.2**	115,906	94.3	180,261	69.7	226,310	77.3
Interest	**247,680**	**9.6**	15,217	12.4	11,543	4.5	21,292	7.3
Depreciation and Amortization	**152,392**	**5.9**	8,522	6.9	24,470	9.5	17,379	5.9
Management Fees	**30,050**	**1.2**						
Non-Operating Expenses (Income)	**(29,603)**	**(1.2)**	15,067	12.2				
Income Taxes	**54,643**	**2.1**			19,925	7.7	13,694	4.7
Total	**2,514,827**	**97.8**	154,712	125.8	236,199	91.4	278,675	95.2
Net Income (Loss)	**$ 55,032**	**2.2**	($ 31,772)	(25.8)	$ 22,344	8.6	$ 14,067	4.8
Supplementary Casino Information:								
Casino Square Footage	**595,000**		50,500		60,000		60,000	
Casino Revenue:								
Table Games	**$1,095,843**	**48.0**	$ 41,788	40.1	$ 97,495	42.8	$134,075	51.5
Coin-operated Machines	**1,184,918**	**52.0**	62,387	59.9	130,517	57.2	126,095	48.5
Total	**$2,280,761**	**100.0**	$104,175	100.0	$228,012	100.0	$260,170	100.0
Approximate Average Monthly Casino Revenue per Square Foot	**$319.00**		$172.00		$317.00		$361.00	

Claridge		Golden Nugget		Harrah's Marina		Resorts International		Sands	
July 1981		Dec 1980		Nov 1981		May 1978		Aug 1980	
$	%	$	%	$	%	$	%	$	%
$119,440	86.3	$248,448	91.0	$236,989	86.5	$236,415	88.6	$189,343	92.1
37,742	27.3	56,476	20.7	67,300	24.6	60,466	22.7	34,408	16.7
(18,764)	(13.6)	(31,989)	(11.7)	(30,413)	(11.1)	(30,220)	(11.3)	(18,088)	(8.8)
138,418	100.0	272,935	100.0	273,876	100.0	266,661	100.0	205,663	100.0
152,898	110.4	206,732	75.7	201,927	73.7	210,330	78.9	155,204	75.5
16,181	11.7	52,617	19.3	6,617	2.4	33,567	12.6	18,140	8.8
3,144	2.3	14,028	5.1	12,297	4.5	13,697	5.1	13,378	6.5
5,122	3.7	15,232	5.6			2,915	1.1	6,365	3.1
(18,833)	(13.6)	(388)	(.1)	(535)	(.2)	(550)	(.2)	(585)	(.3)
		(3,076)	(1.1)	4,774	1.8	2,801	1.1	7,808	3.8
158,512	114.5	285,145	104.5	225,080	82.2	263,860	99.0	200,310	97.4
($ 20,094)	(14.5)	($ 12,210)	(4.5)	$ 48,796	17.8	$ 2,801	1.0	$ 5,353	2.6
43,000		42,500		60,000		60,000		50,000	
$ 55,197	46.2	$126,265	50.8	$102,930	43.4	$115,248	48.7	$ 96,318	50.9
64,243	53.8	122,183	49.2	134,059	56.6	121,167	51.3	93,025	49.1
$119,440	100.0	$248,448	100.0	$236,989	100.0	$236,415	100.0	$189,343	100.0
$231.00		$487.00		$529.00		$328.00		$316.00	

(continued on next page)

Table M *(continued)*
Atlantic City Operating Results
($000 omitted)

	Tropicana		Trump Plaza		Trump's Castle	
Date Opened	Nov 1981		May 1984		June 1985	
	$	%	$	%	$	%
Condensed Income Summary:						
Revenue:						
Casino	$214,601	89.7	$218,178	88.3	$224,990	89.4
Hotel and Other	47,344	19.8	60,692	24.6	56,636	22.5
Promotional Allowances	(22,669)	(9.5)	(31,823)	(12.9)	(29,868)	(11.9)
Total	239,276	100.0	247,047	100.0	251,758	100.0
Costs and Expenses (Net):						
Total Exclusive of Items Shown Below	231,765	96.9	192,025	77.7	186,307	74.0
Interest	4,234	1.8	26,935	10.9	41,337	16.4
Depreciation and Amortization	9,536	4.0	13,953	5.6	21,988	8.7
Management Fees	416	.2				
Non-Operating Expenses (Income)	(19,976)	(8.4)	(2,843)	(1.1)	(2,060)	(.8)
Income Taxes	6,770	2.8	1,528	.6	419	.2
Total	232,745	97.3	231,598	93.7	247,991	98.5
Net Income (Loss)	$ 6,531	2.7	$ 15,449	6.3	$ 3,767	1.5
Supplementary Casino Information:						
Casino Square Footage	49,000		60,000		60,000	
Casino Revenue:						
Table Games	$105,670	49.2	$109,649	50.3	$111,208	49.4
Coin-operated Machines	108,931	50.8	108,529	49.7	113,782	50.6
Total	$214,601	100.0	$218,178	100.0	$224,990	100.0
Approximate Average Monthly Casino Revenue per Square Foot	$365.00		$303.00		$312.00	

1. HARRAH'S MARINA
2. TRUMP'S CASTLE
3. SHOWBOAT
4. THE TAJ MAHAL•
5. RESORTS INTERNATIONAL
6. THE SANDS
7. CLARIDGE
8. BALLY'S
9. CASEARS
10. TRUMP PLAZA
11. ATLANTIS
12. TROPICANA
13. GOLDEN NUGGET

• UNDER CONSTRUCTION

MAP NOT TO SCALE

Laventhol & Horwath

LOTTERY SUMMARY

United States lotteries contributed an increasing flow of dollars to state government sponsors in 1986—a total just short of $5 billion—highlighting once again the dictum of Thomas Jefferson that this is, indeed, an ingenuous way to "tax the willing." The amount will rise again in 1987 as five more state electorates (Florida, Idaho, Kansas, Montana and South Dakota) overwhelmingly approved lottery initiatives in November 1986, swelling the U.S. lottery field to 28. In the same elections, North Dakota voters turned down a lottery—the first state electorate to do this.

Aggregate results for the operations of 23 jurisdictions for various fiscal years ended in 1986, brought total revenue to $12.42 billion, an increase of 32.4 percent over 1985, a 68 percent increase in only three years.

In the year's mix, the California Lottery, with only nine months of operations, passed all others in revenue and net income, recording $1.8 billion at the top line and $693 million at the bottom line. Befitting California's reputation as a "trendy" state, the lottery broke all records in its initial months, then suffered a decline in popularity. However, it has now established a base from which it will grow and expand.

Other major "winners" in 1986 included Illinois, Massachussetts, New York and Pennsylvania—all with revenue approximating $1.3 billion. On the net-income level, New York ranked second with $608 million, followed by Illinois with $540 million and Pennsylvania with $539 million.

Inevitably, as experience has shown, sales in some states leveled off as player excitement waned. However, once more the results corroborated that the size of a jurisdiction's revenues was no indicator of the net income margin or revenue per capita. Tiny Delaware, with but $41 million in revenues, produced a substantial profit margin of 40.7 percent and a respectable per capita revenue of $65.78, almost matching that of California. And little Maryland—surrounded by competing lottery jurisdictions of Pennsylvania, West Virginia, Delaware and the District of Columbia—produced a 45.1 percent net income and had the third highest per capita sales in the nation. Arizona increased its revenue by 66 percent and its net income by 86.7 percent.

But, possibly the most interesting and significant lottery story of the year involved three states which last year were in the "cellar" (according to baseball jargon) in terms of revenues and earnings: Maine, New Hampshire and Vermont. Characteristic of New England's old-fashioned spirit of cooperation, the three states put differences aside and, in September 1985, launched the "Tri-State Megabucks," which has been termed a "phenomenal success" by the New Hampshire commissioners. Both revenues and net income for the three states increased significantly. Taken together, the Tri-State effort produced revenues of $85.6 million in 1986, a 57.5 percent increase over 1985, and a net income increase of 46.9 percent, a record few single state lottery have ever produced in a year.

Recently, several other small Eastern state lotteries have discussed joining in with the "New England Three," or setting up similar joint efforts with compatible neighboring states. In addition, there is discussion of states joining together to establish a joint lottery with a mega-payout.

Most jurisdictions with lottery experience are satisfied with lotteries as they are now constituted, and frown on suggestions that the federal government compete with some grandiose national prize—as much as Uncle Sam needs a helping hand. Such an eventuality would almost certainly take away from the states' incomes. If the concept is further developed, state governors and other political leaders would undoubtedly initiate major lobbying efforts against the proposal with their respective federal representatives.

The financial information set forth in Table N, pages 36-40, was derived from annual reports issued by the various jurisdictions. Direct comparisons of these lotteries may not be meaningful because of differences in state populations, differences in lottery games, promotion and other factors. It should also be remembered that this information is for fiscal years which ended at various months in 1986. The per capita breakdown was based on the latest figures of the U.S. Census Bureau, released as of July 1, 1985.

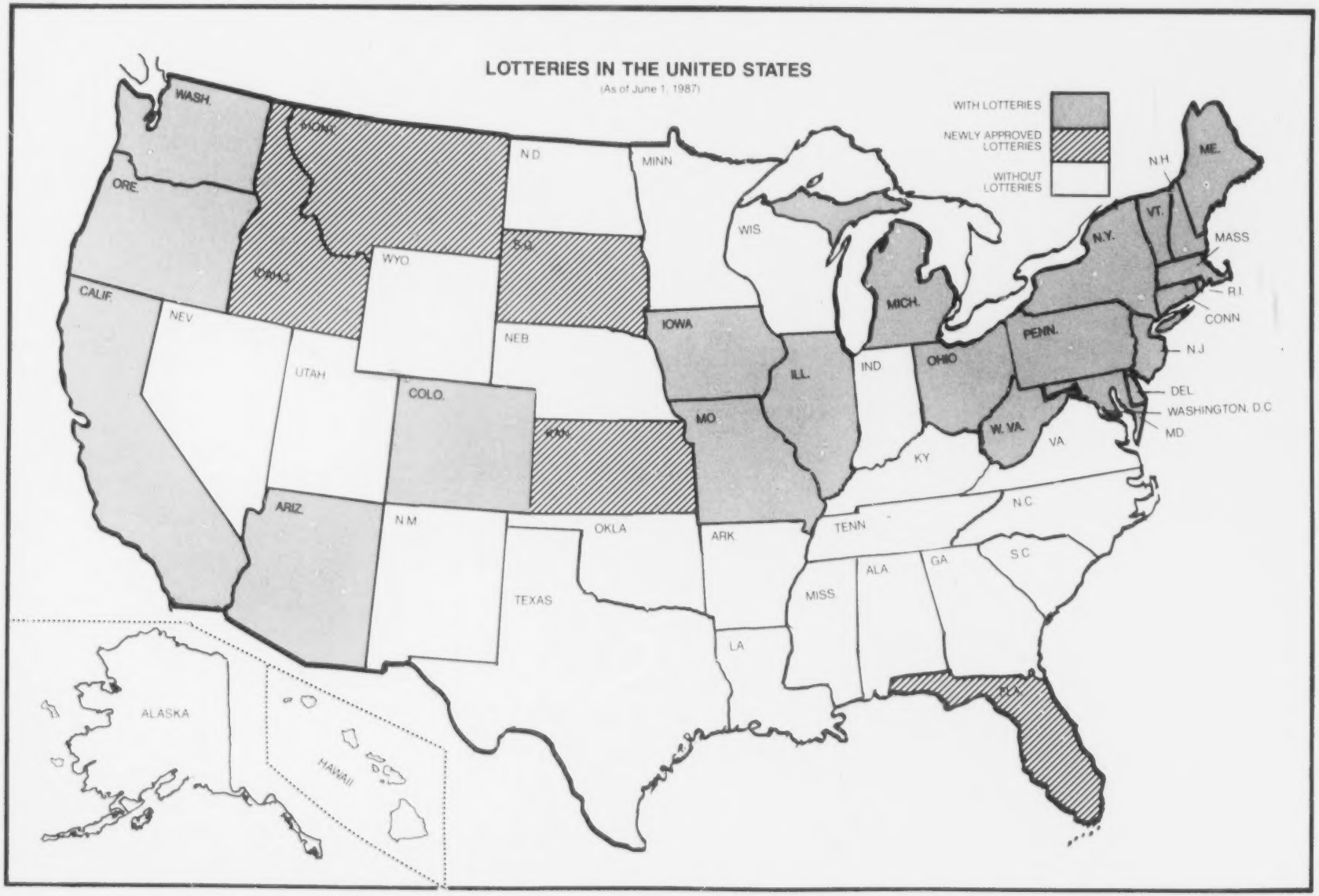

LOTTERIES IN THE UNITED STATES
(As of June 1, 1987)
WITH LOTTERIES
NEWLY APPROVED LOTTERIES
WITHOUT LOTTERIES
WASH.
ORE.
CALIF.
NEV.
IDAHO
MONT.
WYO.
UTAH
ARIZ.
COLO.
N.M.
N.D.
S.D.
NEB.
KAN.
OKLA.
TEXAS
MINN.
IOWA
MO.
ARK.
LA.
WIS.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W. VA.
PENN.
N.Y.
VT.
N.H.
ME.
MASS.
R.I.
CONN.
N.J.
DEL.
WASHINGTON, D.C.
MD.
ALASKA
HAWAII

Table N
Lottery Operating Results
($000's omitted, except for per capita information)

	Total		Arizona		California[3]		Colorado	
Fiscal Year-End			June		June		June	
	$	%	$	%	$	%	$	%
1986								
Revenue:								
Lottery Sales	**$12,305,532**	**99.1**	$120,952	99.9	$1,765,572	99.1	$111,300	100.0
Other	**114,527**	**.9**	45	.1	16,309	.9		
Total	**12,420,059**	**100.0**	120,997	100.0	1,781,881	100.0	111,300	100.0
Expenses & Prizes:								
Commissions	**688,768**	**5.5**	7,317	6.0	89,914	5.0	6,500	5.8
Other Operating Expenses	**623,086**	**5.0**	16,275	13.4	112,937	6.3	14,700	13.2
Prizes	**6,158,359**	**49.6**	55,135	45.6	886,334	49.7	61,700	55.4
Total	**7,470,413**	**60.1**	78,727	65.0	1,089,185	61.0	82,900	74.4
Net Income	**$4,949,646**	**39.9**	$ 42,270	35.0	$ 692,696	39.0	$ 28,400	25.6
Per Capita:[2]								
Lottery Sale Revenue			$37.95		$66.97		$34.45	
Net Income			13.26		26.27		8.79	
1985								
Revenue	**$9,402,998**	**100.0**	$72,916	100.0	N/A	—	$109,500	100.0
Net Income	**3,826,842**	**40.7**	22,644	31.1	N/A	—	33,100	30.2
1984								
Revenue	**$7,415,603**	**100.0**	$59,329	100.0	N/A	—	$120,590	100.0
Net Income	**2,971,393**	**40.1**	21,310	35.9	N/A	—	40,678	33.7

N/A - Not applicable.
[1] Information not available.
[2] Estimates of population per the Bureau of Census as of July 1, 1985.
[3] California Lottery commenced as of October 1985.
[4] Iowa Lottery commenced as of August 1985.

Connecticut		Delaware		Illinois		Iowa[1]		Maine		Maryland	
June		June		June		June		June		June	
$	%	$	%	$	%	$	%	$	%	$	%
$429,112	100.0	$40,917	99.6	$1,284,158	99.8	$81,699	99.0	$38,752	99.7	$718,300	100.0
		173	.4	2,934	.2	849	1.0	98	.3	0	
429,112	100.0	41,090	100.0	1,287,092	100.0	82,548	100.0	38,850	100.0	718,300	100.0
0		3,420	8.3	84,300	6.5	4,553	5.5	2,564	6.6	36,500	5.1
20,438	4.7	1,243	3.0	30,825	2.4	13,225	16.0	4,370	11.2	20,100	2.8
217,824	50.7	19,736	48.0	631,731	49.1	38,864	47.1	20,070	51.7	337,900	47.0
238,262	55.4	24,399	59.3	746,856	58.0	56,642	68.6	27,004	69.5	394,500	54.9
$190,850	44.6	$16,691	40.7	$ 540,236	42.0	$25,906	31.4	$11,846	30.5	$323,800	45.1
$135.20		$65.78		$114.36		$28.33		$33.29		$193.55	
60.13		26.83		47.84		8.98		10.18		73.72	
$344,458	100.0	$38,750	100.0	$1,207,595	100.0	N/A	—	$15,946	100.0	$681,067	100.0
148,800	43.2	15,017	38.8	516,784	42.7	N/A	—	4,380	27.5	263,670	38.7
$254,410	100.0	$33,125	100.0	$887,969	100.0	N/A	—	$15,985	100.0	$536,808	100.0
105,425	41.4	14,021	42.3	379,842	42.8	N/A	—	4,516	28.3	216,898	40.4

(continued on next page)

Table N *(continued)*
Lottery Operating Results
($000's omitted, except for per capita information)

	Massachusetts		Michigan		Missouri[1]		New Hampshire	
Fiscal Year-End	Nov.		Sept.		June		June	
	$	%	$	%	$	%	$	%
1986								
Revenue:								
Lottery Sales	$1,397,868	99.6	$ 999,419	97.6	$206,991	99.0	$33,796	98.5
Other	6,086	.4	24,269	2.4	2,103	1.0	521	1.5
Total	1,403,954	100.0	1,023,688	100.0	209,094	100.0	34,317	100.0
Expenses & Prizes:								
Commissions	56,393	4.0	68,451	6.7	11,500	5.5	1,687	4.9
Other Operating Expenses	79,459	5.7	59,035	5.8	20,309	9.7	5,304	15.5
Prizes	828,280	59.0	481,150	47.0	96,214	46.0	16,580	48.3
Total	964,132	68.7	608,636	59.5	128,023	61.2	23,571	68.7
Net Income	$ 439,822	31.3	$ 415,052	40.5	$ 81,071	38.8	$10,746	31.3
Per Capita:								
Lottery Sale Revenue	$240.10		$109.97		$41.16		$33.86	
Net Income	75.54		45.67		16.12		10.77	
1985								
Revenue	$1,235,269	100.0	$891,244	100.0	N/A	—	$15,242	100.0
Net Income	390,269	31.6	359,414	40.3	N/A	—	4,309	28.2
1984								
Revenue	$961,199	100.0	$594,056	100.0	N/A	—	$17,168	100.0
Net Income	300,967	31.3	236,370	39.8	N/A	—	5,658	33.0

[1] Missouri Lottery commenced as of January 1986.

New Jersey		New York		Ohio		Oregon		Pennsylvania		Rhode Island	
June		March		June		June		June		June	
$	%	$	%	$	%	$	%	$	%	$	%
$ 990,149	98.7	$1,317,011	97.0	$940,002	99.7	$87,436	98.6	$1,320,000	100.0	$56,883	98.2
13,147	1.3	40,651	3.0	2,746	.3	1,221	1.4	(1)		1,037	1.8
1,003,296	100.0	1,357,662	100.0	942,748	100.0	88,657	100.0	1,320,000	100.0	57,920	100.0
70,158	7.0	80,416	5.9	51,716	5.5	4,342	4.9	85,800	6.5	7,089	12.2
18,537	1.8	70,830	5.2	44,067	4.7	12,081	13.6	33,000	2.5	2,480	4.3
496,353	49.5	598,562	44.1	463,356	49.2	45,693	51.5	662,000	50.2	26,800	46.3
585,048	58.3	749,808	55.2	559,139	59.4	62,116	70.0	780,800	59.2	36,369	62.8
$ 418,248	41.7	$ 607,854	44.8	$383,609	40.6	$26,541	30.0	$ 539,200	40.8	$21,551	37.2
$130.94		$74.06		$87.49		$32.54		$111.36		$58.76	
55.31		34.18		35.70		9.88		45.49		22.26	
$936,093	100.0	$1,299,119	100.0	$855,564	100.0	$42,490	100.0	$1,336,522	100.0	$53,240	100.0
390,868	41.7	599,945	46.2	337,327	39.5	14,504	34.1	621,287	46.5	18,580	34.9
$856,191	100.0	$900,034	100.0	$604,322	100.0	N/A	—	$1,265,230	100.0	$53,930	100.0
358,324	41.9	390,542	43.4	245,838	40.6	N/A	—	545,459	43.0	18,320	34.0

(continued on next page)

Table N *(continued)*
Lottery Operating Results
($000's omitted, except for per capita information)

	Vermont		Washington		Washington D.C.		West Virginia*	
Fiscal Year-End	June		June		Sept		June	
	$	%	$	%	$	%	$	%
1986								
Revenue:								
Lottery Sales	$12,409	99.5	$181,184	99.7	$118,654	99.0	$52,968	99.1
Other	69	.5	541	.3	1,248	1.0	480	.9
Total	12,478	100.0	181,725	100.0	119,902	100.0	53,448	100.0
Expenses & Prizes:								
Commissions	621	5.0	9,186	5.1	6,341	5.3	(1)	
Other Operating Expenses	2,296	18.4	16,776	9.2	18,599	15.5	6,200	11.6
Prizes	6,219	49.9	82,724	45.5	59,096	49.3	26,238	49.1
Total	9,136	73.3	108,686	59.8	84,036	70.1	32,438	60.7
Net Income	$ 3,342	26.7	$ 73,039	40.2	$ 35,866	29.9	$21,010	39.3
Per Capita:								
Lottery Sale Revenue	$23.19		$41.09		$189.54		$27.36	
Net Income	6.25		16.57		57.29		10.85	
1985								
Revenue	$5,231	100.0	$149,954	100.0	$112,792	100.0	N/A	—
Net Income	1,235	23.6	52,767	35.2	31,942	28.4	N/A	—
1984								
Revenue	$5,148	100.0	$165,798	100.0	$86,313	100.0	N/A	—
Net Income	1,285	25.0	65,164	39.3	22,770	26.4	N/A	—

* West Virginia Lottery results are for the period April 1985 (commencement) through June 1986.

COMMENTS FROM STATE LOTTERY OFFICIALS

The following is a sampling of comments taken from public annual reports of state lotteries. Commentaries from some states were not available, while some state reports did not list an author.

Arizona

"Based upon our past successes, we anticipated big things this year, but not a 65 percent increase in revenues. Yet, that's exactly what we achieved. Revenues spurted to just under $121 million, making this our best year ever."

"At the same time, we were able to hold the line on operating expenses, bringing this outlay down to 5 percent of revenue . . ."

". . . All totaled, our rate of return to the State exceeded 34 percent. Only players, who received 45 percent of revenue in the form of prizes, profited more . . ."

". . . We attribute this spectacular rise in revenues and profits . . . (to) 'The Pick.' "

"Although introduced less than two years ago, 'The Pick' has far surpassed the 'instant' game in popularity, generating more than twice the revenue this year . . ."

Charles E. Buri
Executive Director

California

". . . In the brief period since the first ticket was sold on October 3, 1985, the California State Lottery (CSL) has emerged as one of the largest of the world's 156 lotteries. Perhaps more significantly, the CSL has become one of the nation's most successful business enterprises of any kind—the sales equivalent of one of the top 30 retail corporations in the United States . . ."

". . . From the first day of sales, it was obvious that the California State Lottery was destined to be something special. . . the Lottery's 'kickoff' was a glittering occasion . . ."

". . . The remarkable success of the Lottery's first three weeks, when 70 percent of California's adult population played, prompted this comment from the noted pollster Mervin Field: 'In the history of American marketing, no other service or product, government or private, has ever come close to having as many as 70 percent of such a large population pay money to voluntarily participate in such a short period of time.' . . ."

M. Mark Michalko
Director

Colorado

". . . For the Colorado Lottery, 1986 was a year of steady achievement of its mandate to provide revenue for the State of Colorado. Since its inception in Fiscal Year 1983, the Lottery has generated net proceeds of $144 million . . ."

". . . The sale of Lottery tickets provided 100 percent of the funding for the Conservation Trust Fund, which is distributed to Colorado's cities, towns, counties and special recreation districts . . ."

". . . Lottery funds made up 33 percent of the State Division of Parks and Outdoor Recreation's total budget during Fiscal Year 1985-86 . . ."

". . . Of the $29 million in proceeds distributed during 1986, $14.5 million was available for capital construction . . ."

". . . In an effort to make more funds available for proceeds distribution the Lottery has developed a new method of television advertising that has saved $1 million in appropriated advertising costs . . ."

Louis Giovanetti
Chairman

Sherry Harrington
Director

Connecticut

"Fiscal Year 1985-1986 was the fourteenth year of operation and the ninth consecutive record-breaking year. The sales increase over the preceding year was 24.6 percent with all games showing an increase. Significant events include the changing of Lotto to twice-a-week effective April 8, 1986 . . ."

". . . Since its inception, the Lottery has generated more than $2 billion in sales, has transferred over $900 million to the General Fund . . ."

Delaware

"Every man, woman and child in Delaware benefited from the Delaware Lottery's continued growth and success during the past year . . ."

". . . During the 1985-1986 Fiscal Year, the Lottery's $16.7 million contribution to the State represented an increase of more than 11 percent over the previous year's profits . . ."

". . . Continuing the Lottery's efforts to increase awareness and understanding of the games, a new 'How-To-Play' folder was produced combining the rules for all the games . . ."

Albert A. Pavlic
Director

Illinois

". . . A number of innovations were introduced in Fiscal Year 1986 to broaden the base of players and to provide additional player services. Primary among them was the addition of a second weekly Lotto drawing.... This midweek drawing also provided second and third prizes to hundreds of thousands of players. The Wednesday drawing attracted immediate player interest and helped boost Lotto sales during Fiscal Year 1986 to over 50 percent of total Lottery sales . . ."

". . . Legislative innovation was also important to the Lottery in Fiscal Year 1986. The passage and signing of House Bill 710 in August of 1985 simplified and more clearly defined the distribution of Lottery profits. The Bill assigned all net proceeds directly to the Common School Fund, to be used solely to assist in the funding of elementary and sec-

ondary education throughout the the state . . ."

Rebecca Paul
Superintendent

Iowa

". . . The fastest time ever - just 111 days. That's all the time it took from the effective date of the bill signed by Governor Terry Branstad creating the Lottery to the first day of sales on August 22, 1985 . . ."

". . . Iowa's first game was an 'instant' success selling more than 6.4 million tickets in the first week of play . . ."

". . . Iowa's first and strongest product continued to sell throughout the year and by June 30, 1986, Iowa's per capita sales were .65 cents a week ranking it fourth in the nation on a per capita basis."

"One of the reasons the Iowa instant game has succeeded has been the Lottery's constant efforts to respond to players' attitudes. By fine-tuning and reacting quickly to players' concerns the Lottery has been able to keep its product fresh and build a strong player base . . ."

". . . One major problem which faced the Lottery was the unfamiliarity of many Iowans with an on-line numbers game. This problem needed a two pronged solution, get the customers in the store and teach them how to play..."

Edward J. Stanek, Ph. D.
Commissioner

John Van Dyke
Chairman

Maryland

". . . Although not every Maryland citizen buys Lottery tickets, the Lottery pays off for every citizen of Maryland. In fact, Lottery earnings produced on the average $75 in net revenues for every man, woman and child in the state. For the state to raise the equivalent of Lottery earnings, the state sales tax or the state income tax would have to be increased by 1 percent. The Lottery provides a choice . . ."

Martin M. Pruncke
Director

Massachusetts

"In 1971, at the same time Lottery legislation was being considered, a proposal to increase Massachusetts sales tax was also under debate at the State House. The purpose of both pieces of legislation was the same: to provide revenues to the cities and towns of Massachusetts. What legislators didn't realize when they substituted The Lottery proposal for the sales tax increase, was the magnitude of tax relief they had just created."

"Since 1972, $1.5 billion has been given to the Commonwealth's cities and towns in direct Lottery distributions and through various Local Aid formulas . . ."

". . . Lottery distributions went for police and fire protection, for street repairs and for teachers' salaries. They went for making streets safer with new lighting. They paid for school crossing guards and computers in town halls . . ."

". . . Last year, The Lottery distributions exceeded $394,660,000 - 20 percent more than 1985. The current figure is over 3 1/2 times the amount given to cities and town just three years ago . . ."

Robert Q. Crane
Chairman

Michigan

"It was heartening for Lottery staff to see the many new records established in our games during the 1985-1986 fiscal year . . ."

". . . But, while we are proud of double-digit percentage increases in such areas as total sales, prize amounts won, school aid and retailer income, we also recognize that we cannot stand still. In addition to protecting the integrity of the Lottery and providing an enjoyable variety of games for players, our charge also is to maximize revenues earmarked for the state School Aid Fund."

"It has been shown here and in other states that as existing games mature, initial excitement wanes and sales level off. For this reason, we are constantly searching for new games and features that will revive and reinforce player interest . . ."

Michael J. Carr
Commissioner

Missouri

". . . We have always promised that 'good things would happen,' and indeed, on January 20, 1986, Missouri Lottery players proved us correct by participating in the first ever Missouri Lottery instant game in such numbers that we set the per capita sales record for the first day of sales of instant tickets."

"After setting the per capita sales record for the first week of sales, it was clear to the Missouri Lottery team that our efforts were bearing fruit. But one conclusion was reached: we must continue to strive to bring Missouri the best lottery possible."

"Although there are still significant challenges that must be successfully resolved in our pursuit of excellence, it is clear that the lottery has proved its potential as an important revenue generating source for the state of Missouri . . ."

Gene Ruble
Chairman

New Hampshire

". . . Fiscal year 1986 marked the first full year for the Tri-State Magabucks, a unique lottery program begun in cooperation with Vermont and Maine. Presently we are pleased to report that Megabucks is a phenomenal success. Ticket sales have been consistently high every week as players from all three states participated regularly in the drawings. . . ."

". . . During the past year, the implementation of a new management structure provided tighter financial control . . . As a result, revenues increased in virtually all sectors of our operation . . ."

". . . We will continue to be innovative, and next year look for further improvements in the way we conduct our business. . . ."

Howard W. Keegan
Commission Chairman

John A. Marro
Commissioner

J. Ricard Higgins
Commissioner

New Jersey

". . . As the fourth largest source of state revenues, the Lottery has a responsibility to continue to provide vitally needed funds for education and state institutions without the additional burdens that would be imposed on taxpayers if there were no Lottery."

"We have a responsibility to maintain the Lottery's national reputation for business-like operations which, in Fiscal Year 1986, held administrative and promotional expenses to less than two cents of every Lottery dollar . . ."

". . . To illustrate the dynamic growth the Lottery has experienced in this decade alone, gross sales of Fiscal Year 1980 were $349 million while Fiscal Year 1986's sales of $990.1 million were nearly triple that amount!"

"The Lottery's three on-line games maintained their overwhelming domination of sales in Fiscal Year 1986 . . . 93 percent of all Lottery sales for Fiscal Year 1986 were produced by Pick-It, Pick-4 and Pick-6 Lotto . . . "

James Cicalese
Chairman

New York

"For the sixth successive year, New York Lottery sales and revenues rose to historic highs in Fiscal Year 1985-1986."

"It marked the second successive year earnings, which benefit education, had reached or exceeded $600 million - figure nearly six and a half times greater than first year earnings of $94.8 million in Fiscal Year 1976-1977."

"It marked the second successive year that sales had passed the billion dollar mark, more than six times greater than the $196.5 million of the first year it had returned to the marketplace, in 1976-1977 . . ."

". . . New York State introduced LOTTO to the United States in 1978. Since then, it has become the bellwether of Lottery games, outpacing all others in sales and prizes awarded. It has been adopted by most other states . . ."

". . . Fiscal Year 1985-1986 saw the awarding of the biggest Lottery prizes ever seen on the North American Continent and in New York State."

"Never before had a prize in a Lottery been greater than the $41 million jackpot awarded in the August 21, 1985, LOTTO 48 drawing . . ."

John D. Quinn
Director

Pennsylvania

"Innovation + Marketing + Efficiency = Success"

"That's the ticket! It's the formula that makes the Pennsylvania Lottery a winner."

"Innovation involves new games to maintain player interest and support . . ."

". . . Marketing involves a network of independent retailers that continues to grow. In 1986, over 8,800 private retailers across the state provided an efficient sales force for all Lottery games, including more than 2,800 on-line retailers."

"Efficiency involves keeping operating costs at a minimum, service at a maximum, with basic operating costs at a remarkably low 2.5 percent of sales."

"Success is ticket sales that have increased from $53 million in 1972 to $1.32 billion in the fiscal year that ended June 30, 1986. In fact, ticket sales have topped the $1 billion mark for three consecutive years, a first among state lotteries. By its 14th birthday in March of 1986, the Lottery's sales surpassed $7 billion!"

"Success is also record profits for programs targeted to Pennsylvania's senior citizens. Benefit programs have been expanded and enlarged, with the department's of Revenue and Aging establishing outreach programs to ensure that qualified senior citizens get their benefits . . ."

Dick Thornburgh
Governor

Blair R. Gettig
Executive Director

Rhode Island

"For twelve years the Rhode Island Lottery has set industry standards for performance, innovation and integrity . . ."

". . . The crucial element for any lottery product is absolute public trust. We are proud of our exemplary record for fiscal honesty and fair play . . ."

". . . We view the 1985-1986 fiscal year as a superior financial achievement. Our net income, sales and volume of prizes awarded were all at an all-time high . . ."

". . . The large measure of our fiscal success we credit to our innovative approach in the areas of product development, promotion and distribution. We have created a unique mix of games and prize structures which appeal across a broad player population . . ."

". . . With an eye toward creating even bigger jackpots for Rhode Islanders, plans are underway for the start of a new multistate lotto game that will involve a number of states both large and small . . ."

". . . In addition to our innovative games and sales promotions, the Lottery also constantly updates its technology. Our contract for computer services, renegotiated this year, calls for the replacement of all existing on-line sales terminals with the latest state-of-the-art equipment . . ."

Peter J. O'Connell
Executive Director

Vermont

"The past fiscal year would be termed 'eventful' in the annals of any organization. The Vermont Lottery has a new Chairperson, a new Director, new senior staff, new products, new computers, and a new headquarters. Indeed, things are happening!"

"In September of 1985, Tri-State Megabucks was launched. It has been more successful than the most optimistic would have predicted. Vermont has more than carried its share of the load in terms of sales and administration . . ."

". . . There have been some areas of concern. The success of Megabucks took attention (and sales) away from our Instant Games. This is our core product, and we must find ways to bolster sales . . ."

". . . To help rejuvenate our Instant Game sales, we hired an advertising agency . . . and we are working closely with them on marketing strategy and promotional activities. We believe we can turn Instant Game sales around by designing games players want to play, promoting them aggressively at the point-of-sale and in the media . . ."

James M. Bolton
Director

Washington

"The Lottery is a unique business. It sells a product that is entertaining, and may be profitable to the player. Simultaneously, it provides revenue to support various programs benefiting the entire state population."

"Neither completely representative of the public or the private sector, the Lottery is a singular business run within the guidelines of governmental regulations. Lotteries are charged with two responsibilities. While not contradictory, they do sometimes strain in opposite directions. The first obligation is to raise revenue for the state in a business-like manner. The second is to do so in a way that is consistent with the dignity of the people in the state."

"Established only four years ago, we are a mere child in the business in comparison to many other states and numerous foreign countries that operate lotteries. Yet, we have made significant contributions to the financial picture of the state . . ."

Evelyn Y. Sun
Director

Washington, D.C.

". . . In four short years, the D.C. Lottery Board has performed outstandingly in its crucial role as a major revenue generating entity for the District of Columbia . . . In addition, because of its ability to license and regulate charitable game activities, more than $10 million has been raised by organizations that provide a wide variety of social services in the District . . ."

". . . The D.C. Lottery concluded Fiscal Year 1986 with much to celebrate: the introduction of a restructured 'Lotto' with more prizes and the only 'Daily Double' game in North America; better operational efficiency through the automation of 90 percent of our internal administrative operation and a new high-tech mobile sales unit . . ."

Douglass W. Gordon
Executive Director

H. R. Crawford
Councilmember

West Virginia

"It's been said that one should plan for the future by taking a firm grip on the present. I am pleased to report that the West Virginia Lottery, in its first year of operation, has demonstrated that, indeed, it has a firm grip on the present and that its future outlook is solid . . ."

". . . While initial sales were outstanding, our planning efforts are directed toward future revenue growth . . ."

Fred L. Haddad
Chairman

Ralphs C. Peters
Director

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